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UNITED STATES-MEXICO ECONOMIC RELATIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON
ECONOMIC RESOURCES AND COMPETITIVENESS

OF THE

JOINT ECONOMIC COMMITTEE
CONGRESS OF THE UNITED STATES

ONE HUNDREDTH CONGRESS

FIRST SESSION

JUNE 12 AND 13, 1987

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UNITED STATES-MEXICO ECONOMIC RELATIONS

ECONOMIC ISSUES ALONG THE BORDER

FRIDAY, JUNE 12, 1987

Congress of the United States,
Subcommittee on Economic Resources
and Competitiveness
of the Joint Economic Committee,
Washington, DC.

The subcommittee met, pursuant to notice, at 2 p.m., in the Corbett Center, New Mexico State University, Las Cruces, NM, Hon. Jeff Bingaman (member of the subcommittee) presiding.

Present: Senator Bingaman.

Also present: Kenan Jarboe, legislative assistant to Senator Bingaman.

OPENING STATEMENT OF SENATOR BINGAMAN, PRESIDING

Senator **Bingaman**. Let us begin. We've got some excellent people prepared to testify this afternoon. I would like to go through a very short statement first, and then acknowledge some dignitaries who are here, and probably miss a few others, and then go ahead with the testimony.

This is a hearing of the Joint Economic Committee. I hope that it's the first of a series of hearings on the changing world economy. We have this hearing today in Las Cruces and a hearing tommorrow afternoon in Albuquerque. The subject of these hearings is going to be the United States and Mexico's trade relations. The subcommittee is going to focus, to some extent, today on border issues.

COMPETITION AND THE CHANGED WORLD ECONOMY

The importance of the topic of the changing world economy, I think, is clear to everybody. America faces a crisis in its ability to compete in international markets. We're running record trade deficits. While our trade deficits may improve somewhat this year, I think it's clear that it will continue to be over $100 billion in 1987. This results, over the long term, in a decline in the standard of living in the country, a decline in the opportunities for our children and grandchildren.

Many of our current problems in economic competitiveness are due to the fact that we find ourselves today in a global economy. The old sets of economic relations between America and the rest of the world have been replaced. If we're to compete in this new world economy, we need to learn how this new set of economic relations works.

Our relations with Mexico, which are particularly important, of course, here in our State, are a key study with which to begin the analysis. The border region exemplifies many of the issues involved in United States-Mexico economic relations.

RISE OF PRODUCTION SHARING

One of the dramatic changes in the world economy has been the rise of production sharing. That's a phrase that Peter Drucker coined a decade or so ago. Rather than one nation specializing in the production of a particular good or service, and exporting that good or service, we now live in a world where the production of a good, in many cases, is shared by several countries. Components are made in one nation for subassembly in a second nation, with final assembly in a third nation, and the product is, perhaps, sold in even a fourth nation.

U.S. trade laws encourage this form of production through sections 806.3 and 807 of the tariff schedule. For products assembled abroad using U.S.-made components and imported into the United States under 806.3 and 807, duty is paid on only the value of the foreign assembly or processing, not on the value of the U.S. components.

The rise of production sharing has changed how America interacts economically with the rest of the world. It's clear that we need to also reassess our economic policies in light of these facts. This series of hearings is intended to explore, in part, the changes that are needed. It's especially important to focus on these questions as they relate to the United States and Mexico.

UNITED STATES-MEXICO PRODUCTION SHARING

So-called production sharing is a major portion of the trade between the United States and Mexico. Mexico is a leading supplier of these types of imports to the United States. Trade in 806.3 and 807 goods represented 21.3 percent of Mexico's exports to the United States in 1985. In 1985, petroleum represented about 41 percent. But since petroleum exports to the United States had declined in 1986, trade in manufactured goods has become even more important to the Mexican economy.

The rise of production sharing in Mexico is the result of the Mexican Government's maquiladora program. Under this program, Mexico allows duty-free importation of raw materials, components, and the machinery needed in the manufacturing process. The output of the maquiladora plants must be exported, since production is only for the export market, not for domestic consumption.

The Mexican Government relaxes many of its strict controls over foreign ownership of these specific plants. I realize there is an exception in the law, which I discussed with some folks in El Paso this morning, which does permit the sale of some of these products in Mexico, but in fact, that doesn't occur except in very rare cases.

While the maquiladora program encourages employment in Mexico, I share the concern that some have that this is taking employment away from the United States. On the other hand, there is some evidence that the program also generates employment on the U.S. side of the border.

The first panel of witnesses, I'm sure, will address the questions that are raised by the maquiladora program, and I hope there will be an opportunity to ask some questions.

Another issue that deserves attention is why the United States should welcome imports from maquila plants in Mexico under the label of production sharing, when Mexico refuses to permit items produced in many of those same plants to be sold in Mexico. In other words, if it is in both countries' interest to share production, why is it not in both countries' interest to share consumption as well?

BORDER ISSUES

The border has its own special problems. A number of standard items that most businessmen take for granted in other parts of the country can be major hurdles to doing business across the border. Legal arrangements and commercial laws are different in the United States and in Mexico, causing difficulties for cross-border business activities. Also, the lack of adequate transportation links and ports of entry hinder trade. These are just some of the problems that we face in United States-Mexican trade relations.

WITNESSES

Let me briefly describe the witnesses we have today. We have a distinguished list of witnesses. Our first panel consists of Mr. Mario Dehesa of the Center for United States-Mexican Studies, University of California, San Diego, formerly senior researcher with the Center for Research and Teaching on Economics in Mexico City. I'm particularly pleased to welcome him here today to describe the research he has done on the changing Mexican economy and the rise of Mexico's manufacturing exports.

Mr. Bobby Ortiz, who is vice president of Farah Manufacturing Co., we're glad to have you here today; Mr. Charles Dodson, who is chairman of Elamex; and Neal Gonzalez, who is the executive secretary-treasurer with the New Mexico State AFL-CIO.

I'm sure all of you have interesting points to make on the maquila program, and we're looking forward to that testimony.

Our second panel, which we'll hear from a little later, includes Mr. Louis Sadler, director of the Joint Border Research Institute at New Mexico State University; Mr. Brent Poirier, an international lawyer here in Las Cruces; and Mr. Gerald Thomas, president emeritus of New Mexico State University.

Gentlemen, let me welcome you all. Let me also say that, if others here would like to submit prepared statements for the record, the subcommittee will be glad to accept that testimony and make it part of the record.

Before we start the testimony, let me introduce just a few people. Richard Douglas is here representing Michael Hancock, who is the American Consul, we're pleased to have you here; representing Senator Domenici is Darlene Garcia; representing Congressman Joe Skeen is Delia Barncastle, we're glad that you're here; and we have County Commissioner Lalo Chavez, I'm pleased that you're here.

Finally, let me introduce and particularly thank Mr. James Halligan, the president of New Mexico State University, for allowing us to use the facility and for all of his courtesies on this occasion and all the other occasions where I have had the good fortune to deal with him.

So why don't we start. Let me have you go ahead and give testimony, I believe, in the order that I went ahead and listed you.

Mr. Dehesa, if you would go ahead, please. I think what I may try to do here is to take the testimony of the entire panel. Then there may be some questions that we can put to you at that time. Go ahead.

STATEMENT OF MARIO DEHESA DÁVILA, CENTER FOR UNITED STATES-MEXICAN STUDIES, UNIVERSITY OF CALIFORNIA, SAN DIEGO

Mr. DEHESA. First of all, I would like to thank the Joint Economic Committee and the invitation by Senator Jeff Bingaman to be here and testify as a witness on this important issue.

I think it's hard, from a Mexican standpoint, to overemphasize the importance of the United States economy. It's also hard to overemphasize the complexity of this relationship that covers not only economic issues but also social, as well as cultural, political, and the long range of difficult questions that arise from this changing world, which happens to be in the mid-1980's.

Today, I would like to address a couple of issues. I will try to be as brief as possible, in order to allow the other witnesses to use, properly, their time, and the public as well, for further questions or comments.

Let me just start pointing to apparent paradoxes. The first one is that, traditionally, Mexico has adopted a protectionist commercial policy. In fact, it was the distinguishing feature of the import substitution development strategy that was in force for over 40 years. Recent policies undertaken by the present government by Miguel de la Madrid has changed substantially, profoundly, with long, far-reaching conclusions.

The second paradox is that, traditionally, the U.S. economy has been an economy that runs trade surpluses and not trade deficits. On the reverse, traditionally, the Mexican economy used to run trade deficits in response to a developing country and, recently, it has managed to accomplish massive trade surpluses. That's an anomaly for normal economic and historical standards, and I think it's just symptomatic of the hard and deep changes that need to be done to adapt to the circumstances at the end of this century.

In that spirit, let me just start by reminding you that over the last two decades, the trade flows between the two economies have grown much more than each economy considered by itself. From 1965 to 1985, trade flows have expanded elevenfold. The GNPs have expanded about five or six times in each case. That implies that both economies are becoming increasingly interdependent, and each nation is increasingly important for the other one.

With this background, let me address some of the issues that have been observed since 1983 up to 1986, and what goes on this year. Within that period of time, we have seen some major changes in the composition of Mexican foreign trade. Imports have been reduced dramatically. They are about half the size they were in 1981. But the most significant changes have taken place on the export side of the Mexican economy.

We started this decade as an oil-exporting economy. Oil represented over 70 percent. That's no longer the case. It's no longer the case due to two main reasons. The first one is the collapse in the price of oil. But, more importantly, the manufacturing exports had been growing before the collapse of the oil prices and, therefore, became the main source of foreign exchange for the Mexican economy.

This is a far-reaching change that may have profound implications for both economies. But we have more than that within the manufacturing sector itself, which, I repeat, provides the majority of the foreign exchange. We have seen also significant changes in its composition.

Fifteen years ago, at the beginning of the 1970's, the manufacturing sector in Mexico exported so-called traditional products that were kindly named "manufacturing products" because they involved very little processing. These were mainly food and beverage, as well as clothing. That represented 60 percent of the total industrial exports at the beginning of the 1970's. Nowadays, they represent only 15 percent. They are a small part of the exports done by the industrial sector.

In the so-called engineering sector, on the other hand, we see exactly the reverse trend. At the beginning of the 1970's, goods constituted by machinery, transport, and chemicals represented only about 20 percent of Mexico's exports. Nowadays, they represent more than 60 percent.

To a good extent, this long-run structural change has been accomplished due to the advance in the industrialization process, but, also, very important for the purposes of this hearing, because in these very industrial branches, we observe that production is undertaken by American corporations.

See, American corporations are very important in the chemical sector in Mexico, are very important in the transport sector. In fact, it's one of the cases where we see 100-percent ownership by American multinationals. They are also very important in machinery. So to a good extent, these exports are undertaken by firms that have their main quarters within the USA.

This would be one of my arguments or one of the major factors that I want to point to today; namely, that maquila is more—between maquila and manufacturing, there is more a difference of degree than a difference in kind. We don't see two different types of processes, but we see a coarrangement of a different nature under a different trade regime. The trade regime differences, however, are disappearing. I will address that issue later on.

The change in composition of the Mexican manufacturing export has not arisen only due to the industrialization process and the presence of American multinational corporations. There are two other further significant factors. One is the gain in price competitiveness. Chemicals, transport, machinery are more competitive because they have a greater productivity growth.

But more importantly than price competitiveness, they have been developing because they face fast-growing markets. To use a technical expression, they have a high-income elasticity of demand. They are the type of goods that the U.S. economy demands from the Mexican economy. That's not necessarily the case, that demand for goods in the United States from other countries is as focused in machinery, transporting, chemicals, as is the case in Mexico.

With these four factors in mind, I will try to talk briefly on the maquila. Here, the major point I want to make to this knowledgeable audience that lives in a border State and knows very well the importance of growth in this sector, is that the maquila has grown significantly at the expense—well, that's an inadequate word. The allocation of production under 806 and 807 tariff idioms has shifted dramatically in the last 20 years, and the Mexican maquila has increased its share substantially.

In the evidence I submit to this hearing, this trend comes very clearly on table 4 of the percentage distribution of U.S. imports from industrially developed and less-developed countries done by the United States. In 1969, Mexico represented only 3.8 percent. In 1983, it represented 11 percent.

If you can observe, also, in other countries, there is a decreasing share or constant, like Taiwan or Hong Kong. It's also interesting to point out in this table that the main users of these tariff items are Japan and West Germany, and not the less-developed countries as a group.

The maquila in Mexico has been based, to a large extent, on cost differentials. Reducing costs, I think, is no further in Mexico's advantage. I think that has come out very clearly last year. Last year, the dollar fall in Mexican wages was so sharp that, despite the creation of 50,000 jobs, the wage bill was of the same size as the year before.

See, there was no difference in 1985 and 1986 due to the reduction in dollar wages paid by the maquila. This obviously represents a very substantial transfer to the United States to the firms that control the maquilas, either United States-Mexican subcontractors, or Japanese, or other nationalities.

If the maquilas were there before this fall in the dollar wages, they were still there after it.

So the wage reduction of these 50,000 jobs represents an increase in either profits or an increase in competitiveness on the other side of the chain in the production process. There are many advantages, certainly, for the maquila. It provides jobs. It provides foreign exchange in a time when both are badly needed in Mexico. But I would like also to point out that there are no panaceas. There is not a magic wand by which Mexican problems will be resolved.

I think it's a mistake to consider the maquila in isolation. One has to see the overall picture of what happens in the Mexican economy. And that's what I want to address in the last topic of this talk.

There have been, in the last couple of years, very significant and long-lasting changes in the trade regime. As I mentioned before, these years represent the end of the import institution developing era. The government has seriously based Mexican growth in an outward growing strategy. It has liberalized trade very substantially and at a very fast speed.

At the end of 1983, in the midst of debt crisis, very severe debt crisis, 70 percent of imports were ruled by quotas. Four years later, only 10 percent of the tariff schedules were under quantitative restrictions. In value terms, the picture is slightly different. But 70 percent of the value of imports are undertaken nowadays under a tariff arrangement eliminating any sort of quantitative restriction.

There are still some important—well, before moving forward, let me just call your attention to the fact that not only has there been substitution of quotas for tariffs, but the tariffs themselves are getting reduced. Maximum tariffs at the end of this year will be 40 percent, and they are programed to be 30 percent by October next year. Moreover, the number of tariff brackets will be also reduced from 11 to 5.

See, the overall trend is that the Mexican Government is doing a very thorough job on this issue. Let me remind you also that this sort of trade liberalization is a very risky endeavor. Under high and variable inflation rates, it's very easy to get an overvalued currency, as has been the case in Mexico in 1985, to name an example, or 1984, and the Government has to see results if this program is going to be permanent. In this regard, the experiences of the southern countries are telling.

Just to finish, let me mention two things that blur the difference between the maquila and the rest of the trade regime. The Government enforced an option called temporal or transitory imports, by which Mexican producers can import duty free under the condition of exporting. This coexists with the definite import regime. The effects of this regime have been very powerful and have been immediate.

On the recession or depression year of 1987, overall imports decreased around 20 percent, but this is the result of a weighted average of a decrease in the definite imports type of regime and a very significant increase, 90-percent increase, in transitory imports.

Another significant change is that the Mexican Government has allowed some firms to use their spare capacity to get engaged in maquila activities. This further reduced the difference between the two sectors of the economy.

Just to finish, let me say that there is some skepticism within Mexico, not only because after 4 years, the economic indicators show only mild signs of improvements. That is partially related to major shocks faced by the economy. But it's also linked to some policy measures adopted from its northern neighbor.

Mexican exports have faced some quantitative restrictions, as is the case of steel. And has faced other types of obstacles, like its treatment within the GSP system.

In research that I have done and published elsewhere, I have shown that Mexico is one of the countries that is more adversely affected by the present rules of the GSP. The competitive exclusions and the market share under which Mexican products are excluded are a greater proportion than is the case of the major beneficiaries of the GSP.

To conclude, I think there is scope for improvement, a great degree of improvement, within the two countries. There is scope for trade creation that may come as trade diversion from the rest of the world. I think that would be positive to the extent that the rest of the world, particularly the Far Eastern countries, have trade surpluses that have to be reduced or eliminated for a better health of the world economy. Thank you very much for your attention.

[The prepared statement of Mr. Dehesa follows:]

PREPARED STATEMENT OF MARIO DEHESA DÁVILA

The Times are Changing: Foreign Trade between México and the U.S. in the mid 80's.

Testimony before the Subcommittee on Economic Resources and Competitiveness of the Joint Economic Committee of the U.S. Congress. June 12,1987.

Mario Dehesa Dávila*

Introduction

In the last few years the Mexican economy has experienced several profound shocks that seem to lead her to a long run structural change. Some of them are related to events linked with the world markets, but most are, apparently, the result of policy decisions designed by the Mexican government in response to the debt crisis. The economic strategy of the de la Madrid administration has emphasized changing the foreign sector of the Mexican economy in order to produce a trade surplus with which to service the debt. Furthermore the government has maneuvered towards adopting an outward growth economic strategy that, according to public officials in México, would allow the economy to grow in a feasible and sustainable way.

Simultaneously, the American economy displayed a massive trade deficit along its current expansion path induced mainly by the fiscal deficit and the related overvaluation of the dollar in the first half of the 80's. This state of affairs has caused a protectionist mood in some quarters within the USA. Due to global problems and policies the bilateral relationship between the two countries may suffer if México continues to expand her exports and if the US tries to reduce the trade deficit through specific sector- oriented commercial policy measures.

These short notes attempt to highlight some of the issues arising from the scenario just described. The first part of the paper addresses the behaviour of the Mexican foreign trade sector in the past few years. Special attention is devoted to the performance of the manufacturing sector and the maquila industry because the focus is put on the export side. It is argued that trade between the two countries will keep on growing; but probably at the expense of trade with the rest of the world. The second part deals with changes in the Mexican trade regime. It is reported that a substantial trade liberalization has taken place over the past three years. The last section presents some tentative conclusions.

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I Foreign Trade Behaviour and Structural Change

Since the onset of the foreign exchange crisis in August 1982, the external sector of the Mexican economy has had a remarkable profile for a developing country . First of all the trade balance has been in constant surplus to service the external debt, adding close to 40 billion dollars over the period 1983-1986, roughly equivalent to one quarter of the GNP. Secondly, there has been a dramatic change in the composition of exports as can be seen in Table 1. Manufactured exports (excluding maquila) have increased quite fast replacing oil as the main source of foreign exchange. The falling share of oil was obviously related to the collapse of energy prices in early 1986. However, the change in composition was underway before the collapse took place. In turn the share of the maquiladoras in total exports increased from 3.6% in 1983 to 8 % four years later, in 1986. The foreign sector shows a third significant change : a greater propensity to export manufactured goods coupled with a smaller propensity to import them. This trend is still too weak and recent . However, if this change persists and deepens, a truly significant transformation in the behaviour of the industrial sector would have occurred.

It is worthwhile to mention some key factors and policy decisions that led to these phenomena. They are also relevant to understand the links between both countries. Among these we can pinpoint, on the one hand, the austerity measures of the government that cut sharply public sector imports and depressed overall production, reducing also private sector imports. So we find that in 1986 imports were less than one half of their 1981 value. So far the trade surplus owes more to the import contraction than to the increase in exports . Given that something in the range of 60% of the Mexican imports are supplied from the US, this translates into income losses for US producers. The behaviour of Mexican imports has been shaped additionally by changes in the trade regime to which we will turn later on.

On the other hand, one observes that the real devaluation of the peso together with wage policy enhanced the competitiveness of commodities manufactured in México, fostering exports. The index of the exchange rate of the peso constructed by the Morgan Guaranty Bank shows a real effective devaluation of 35 % between 1986 and the 1980-82 average . However, the devaluation rate has been uneven amidst speculative attacks against the peso, keeping exporters in an uncertain environment and preventing them of taking full competitive advantage of currency changes. The wage policy adopted has had the effect that mexican wages paid in the manufacturing sector have fallen more than 100 % compared with wages paid in the US industrial sector,measured in common currency. Nonetheless, focusing on this figures in isolation to assess México's export potential, as has been done in several analysis, can be highly misleading because it overemphasizes the bilateral relationship ignoring the rest of the world. When one takes into account the world economy a different picture emerges. For present purposes one has to bring into the global picture third parties that compete with México to gain access to the US market.The relevant group of countries in this regard seems to be the so called Newly Industrialized Countries (NICs) namely, Korea, Taiwan, Turkey, Brazil, Israel, etc . Compared with a simple average for this group the relative real devaluation of the peso has been substantially smaller (15 %), according to the Morgan Guaranty Bank index (see Table 2). Under this circumstances, the real peso devaluation may increase Mexican exports, but less than would be expected from its absolute fall because of the stiff competition arising from other NICs.

This situation is likely to change in the future in relation to some of the South East Asia countries. Their balance of payments position may very well lead them to revalue their currencies against the US dollar. In this event there may be a substitution in the source of US imports, in which México increases his market share. This scenario has an interesting implication . This nations are impressive exporters to the USA (and elsewhere) but tend to import much less from the US (that is why they have a surplus). In fact in 1985 Korea and Taiwan imported jointly from the US the same amount México did on her own. Therefore shifts in the trade area composition of the USA may very well have significant beneficial effects for México and her northern neighbor through induced multiplier effects working through the foreign sector.

In summary, México is likely to increase her exports but slowly and dearly due to fierce competition with other countries. This trend is beneficial to the US to the extent that México imports more from American sources than other countries do.

México's pattern of specialization

As mentioned above there has been a significant change in the composition of exports. This change has taken place not only within broad sectors i.e. agriculture, oil, industry etc.. It has taken place also within the manufacturing sector which is even more important,given that it has become the prime source of foreign exchange. In the last 15 years the composition of manufactured exports has been modified in a very significant way. In the early 70's the so called traditional exports -- processed food, beverage, tobacco and textiles -- formed the majority of manufactured exports, equivalent to about 60 % of them. Today they amount to 15 % . Conversely the relatively more sophisticated products, the so called engineering goods in the GATT nomenclature -- transport equipment and machinery -- as well as chemical products were only a small fraction, around 20 % . At the present time these types of commodities represent approximately 60 % of manufactured exports .The recent export drive by the manufacturing sector (1983-1986) was broadly based. Nevertheless the leading industries were those represented by the engineering goods and the most dynamic has been the transport equipment sector.

There are four different factors that seem to explain this transformation.[1] The first and most comprehensive concerns the degree of industrialization achieved after decades of promoting the manufacturing sector. The second one is price competitiveness. Chemicals, machinery and transport equipment showed a better productivity performance during this period and were therefore able to gain cost competitiveness.Traditional export products did not improve their competitive advantage noticeably. However this effect seems to be relatively small and unlikely to be able to explain why some industrial branches became more successful exporters than others.

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[1] M. Dehesa Dávila "El Patrón de Especialización de las Exportaciones de Manufacturas Mexicanas". Mimeograph Center for US- Mexican Studies UCSD, 1987.

A third factor that contributes more to explain the shift in composition arises from the demand side.The engineering products and chemicals faced an income elasticity of demand substantially greater than one, meaning fast growing markets for these products as the US economy expanded and simultaneously increased her openness. Traditional exports on the contrary faced a low income elasticity of demand and/or regulated markets finding severe obstacles in their expansion path. Nonetheless this two variables provide a still incomplete panorama . A fourth critical factor is that this type of exports are undertaken to a significant extent through subsidiaries of American multinationals i. e.intra-firm trade plays a substantial role

Recalling that in the past decades trade between the México and the USA has developed at a faster rate than GDP growth (of both countries), it is straightforward to assume that in the future the two economies are likely to become even more integrated if present policies continue. The integration process will furthermore take place probably in the engineering products and chemicals aided in part by the workings of American corporations. However the Mexican export drive faces severe obstacles imposed by US trade policy measures. Examples are, among others, the quotas imposed to steel and other products . A more general case concerns the Generalized System of Preferences (GSP) graduation rules, which limit the expansion of more sophisticated industrial exports like machinery, a particularly adversely affected sector.

The case of the maquila industry

Looking at Table 3 it is easy to realize why the maquila industry has attracted so much attention recently. The industry has shown high rates of expansion generating jobs and foreign exchange at precisely the time when both are badly needed in México . The contrast with the stagnating manufacturing sector could not be sharper. Due to the dynamic rate of job creation, the maquila plant employment is such that it now represents close to 10 % of total industrial employment. One of the major forces pulling the demand for labor in the maquila has been the plunge in the cost of labor in dollar terms. From 1981 to 1986 the dollar cost per hour diminished two thirds from $ 1.50 to 55 cents In fact the reduction in dollar wages went so far last year that the wage bill stagnated despite the creation of 50 000 new jobs. Therefore the foreign exchange generated by the maquila did not increase because it arises almost exclusively from remunerations paid by the industry. From the firm's point of view, the cost reduction increases either profits or their competitiveness carrying along a substantial benefit for the U.S. The drastic deterioration of the factorial terms of trade suggests that further reduction in dollar wages to expand the maquila industry is self defeating for México.

Note that maquila activity reacts strongly to changes in relative wages, themselves the outcome of a wide set of powerful forces within each country. The wage differential between México and the US won't be substantially reduced by the policy proposal of imposing tariffs after suppressing the 806.3/807 regime. US wages are several times higher than in México, while US tariffs are around 6 % weighted average. Therefore maquiladora plants would go on after setting tariffs, although the effects vary from one sector to another. Who would then be the winners and the losers with tariff imposition ? The US Treasury would reap benefits through greater tax revenue, minimal to be significant in reducing the fiscal deficit. The bearers of the cost would be either the American consumer or the US producers. If final prices increase with the tariff american consumers would pay the cost. If prices do not change because firms wish to stay competitive, profits will diminish and the owners of the firm bear the cost.

The demand for labor depends however not only on cost but also on the level of activity of the US economy and in more general terms on the development of off shore assembly on a world wide scale. A limited but informative perspective on this last topic can be gained by reading Table 4. It shows that on a world wide scale México has become a preferred location for off shore assembly over time from the standpoint of US producers . Interestingly enough this information also reveals that until 1983 the biggest beneficiaries of the 806.3/ 807 tariff regime were West Germany and Japan, with whom the US runs substantial deficits. Before changing the 806.3/807 regime, in any sense, this kind of features have to be taken into account.

The best econometric evidence available suggest that within the world economies México has ample scope to attract more maquiladoras.2 The estimated elasticities of substitution of off shore assembly between most countries and México are significantly greater than one. This means that the percentage response in the optimum allocation of 806/807 value added produced in México vis a vis that allocated in another country is going to be larger than the change in the countries relative wages. Econometric work to quantify the relationship between the maquila in México and the US economy is also telling . It suggests that the employment in the maquilas as a whole increases one to one as percentage change in relative wages between the US and México take place . If past behavior persist, the recent sharp fall in relative wages implies a powerful force to expand maquila employment. Analysis at a more disaggregated level show that the size of the response varies significantly across sectors within the maquila. The data seem to imply also that the biggest adjustments are in the heavy industries :transport, machinery and tools . These are US industries threaten by international competition. The maquila program can be seen as an option for survival for US firms within this industrial branches. There are also expanded potential benefits for México, if the reallocation of this industries overcomes its past shortcomings.

Another significant feature, commonly mentioned in the literature that studies the in bond industries, is the strong reaction of maquila employment to the US business cycle. Therefore recessions in the American economy hit hard, representing a risk if México specializes in this kind of activity. One can point out that the evidence seems to reject the image of the maquila as a footloose industry and that the speed of adjustment to changes in key variables has increased substantially over time as companies

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2 L. Téllez " The Economics of Offshore Assembly : The Mexican Case " Chapter 3 of the Ph D Thesis : " Essays on the Real and Financial Aspects of an Open Economy : The Mexican Case " MIT 1985.

gain experience in off shore assembly. Finally, recent data indicate that the maquila industry is becoming more diversified with larger plants, associated in 60 % of the cases with medium or small enterprises in the California/Baja California region. 3 The success of the maquila has induced, on the other hand, State Governments in México to attract in bond plants in states which had a small number before such as Yucatán.

From a Mexican standpoint the contribution of the maquila with respect to linkages and technology transfer remains almost non existent suggesting that this industry is no panacea to the problems that the country face. Linkages with the rest of the economy are still very meager,less than 3-4 % of total purchases,although this may change in near future to some extent . An alternative measure of the potential of the maquila market for the mexican producers can be gathered by observing that the maquila industry imports a variety of goods that amounted to 5 billion dollars in 1986. Technology transfer continues to be elusive although some acquisition of managerial and technical skills by the Mexican personnel has been documented.

II Changing the Foreign Trade Regime

The trade regime has been seriously transformed during the de la Madrid administration. The present government policies represent the deepest restructuring of a 40 year old institutional framework . Essentially it represents the end of the import substitution development era and a shift towards an outward oriented growth strategy.The trade regime was transformed in three fundamental aspects : (a) signing international accords , (b) reorganizing the government agencies that managed foreign trade, (c) providing a new environment for the price mechanism . México is a now a GATT member (since August 1986) and has a bilateral agreement with the US to phase out various export subsidies. as well as giving up using price policy of key natural resources to compete in the international market The administrative restructuring tries to minimize red tape and to speed up bureaucratic procedures .The last one means trade liberalization and a decision to increase the openness of the economy.

The extent of this change can hardly be overemphasized. In early 1983, at the beginning of the administration and amidst the debt crisis, 100 % of imports were controlled by quotas. Four years later only 10 % of the tariff positions were under quantitative restrictions. Around 70 % of imports are now based on tariffs . Moreover the number of tariff brackets and maximum tariffs have been substantially reduced. The number of tariff brackets is scheduled to come down to 5 from 11 two years ago . The maximum tariff is planned to drop further to 40 % at the end of 1987, and to 30 % in October 1988. The median tariff in 1986 was 22,6 % with a weighted average of 13 %. Nonetheless some sectorial programs remain in force in automobiles, pharmaceuticals, petrochemicals and capital goods.

The rationalization of protection was complemented with export promotion policies. Some of the measures adopted just modernized the institutional support to exporters to eliminate their handicap relative to

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3 N. Clement and S. Jenner "Location Decisions Regarding Maquiladora / In-Bond Plants Operating in Baja California,México" Institute for Regional Studies of the Californias, SDDU, 1987.

exporters in other countries. An example of this type of modernization is the increased role of the trading companies. Additional important measures include augmenting credit availability to exporters at a time of severe global credit restriction, and introducing a domestic letter of credit to stimulate indirect exports.

A most significant step was to provide free trade status to exporters through the program of "transitory imports". Under this option producers can import under a free trade arrangement conditional to use them to export. The effects of this program have been immediate and powerful. In the recessionary year of 1986, overall imports decreased 14 % as a weighted result of a 19 % decrease of " definite " imports and a 43 % increase in the transitory option. Imports of intermediate type of goods (as opposed to capital goods) which represent the majority of imports demanded by the Mexican economy jumped 96 %. On the other hand exports that use this transitory imports as inputs grew 96 % compared with an increase of 29 % of exports employing " definite " imports. One significant implication of these figures is that global trade between México and the US will apparently grow at an accelerated pace in the future, as the distinction between the maquiladora sector and the manufacturing sector vanishes.

Final Comments

Under severe adverse conditions the Mexican economy is going through a process of deep structural change. A major component in this transformation has been the trade liberalization and the modernization of the trade regime undertaken by the de la Madrid administration. It is paradoxical that as México liberalizes trade the US becomes more protectionist : the historical roles of both nations seem to be reversed. Recent US protectionism has had negative effects on the Mexican economy . Furthermore México is one of the most (if not the most) adversely affected countries by the GSP graduation rules. The latest version of GSP increased discretion in its enforcement asking US commercial partner to liberalize their economies. However México has done so to a remarkable extent and at fast speed apparently without getting the promised GSP benefits. Other things being equal this attitude does increase the probability of policy reversals. More so because whatever the assumed benefits of trade liberalization per se , under present conditions of high and variable inflation (fluctuating real exchange rate) in México, trade liberalization is inherently very risky.

As pointed out in this paper, trade between the US and México has expanded fast through multiple channels. Some represents trade creation at the expense of trade diversion from the rest of the world. The increased economic integration of both economies incorporates part of this process; however, on its own account it is also likely to expand much further. Trade diversion towards México can be mutually beneficial because as the Mexican economy exports more, her income will rise inducing a demand for US imports later on. The key aspect of this process is that México imports much more from the US than any other developing country. The process requires however to suppress US protectionism against Mexican goods. Nonetheless the changing composition of México - US trade will bring along the need of adjustment within the two countries. Adjusting or forcing to adjust without taking fully into account the partner needs is bound to multiply conflict, delaying or suppressing mutual benefits.

In the mid 80's the maquila industry in México has been booming. The trend is likely to persist in the near future, although probably at a slower pace, excluding the case of major economic or policy shocks. The maquila expansion is based substantially on wage differential that won't disappear imposing tariffs to the industry . Tariffs create a conflictive situation with México, and redistribute income from US consumers and/or US producers towards the US Treasury. They are not likely to save any US jobs. A positive strategy would be, on the other hand, that US firms take advantage of the gains in the maquila plants to foster their own exports to third countries, as some US firms already do.

The coexistence of a trade deficit of the rich partner and the trade surplus of the southern neighbor are a second paradoxical situation, anomalous by historical and economic standards. These paradoxes, symptomatic of global and sectorial imbalances, confront policy makers with difficult choices . The very size of the imbalances suggests that their correction needs time, requires innovative proposals, and will involve some special cases, dealt with on an industry by industry negotiated basis, taking into account aims and styles of development. To suppose otherwise, and act accordingly, may easily backfire.

TABLE 1
COMPOSICION DE LAS EXPORTACIONES
(DISTRIBUCION PORCENTUAL)

	1970	1973	1978	1983	1985	1986
SECTORES	100.0	100.0	100.0	100.0	100.0	100.0
PRECIOS CORRIENTES						
Agropecuario	20.4	19.4	10.8	2.7	6.0	14.5
Mineria	14.7	12.0	6.0	2.6	2.3	4.4
Manufacturas	64.3	68.5	54.7	23.0	30.5	42.1
Petróleo y Gas	0.6	0.1	28.5	71.7	60.9	39.0
PRECIOS CONSTANTES DE 1970						
Agropecuario	20.4	17.1	13.7	5.9	7.3	
Mineria	14.6	10.9	8.0	6.6	6.2	
Manufacturas	64.3	71.9	64.4	53.0	58.2	
Petróleo y Gas	0.5	0.0	13.7	34.5	28.3	
MANUFACTURAS	100.0	100.0	100.0	100.0	100.0	100.0
PRECIOS CORRIENTES						
1.Alimentos,bebidas y tabaco.	43.9	39.2	45.5	26.4	11.2	12.0
2.Textiles e Industria del cuero.	21.2	19.5	14.1	5.9	3.1	3.9
3.Industria y Productos de la madera.	1.0	1.4	1.8	1.5	1.4	1.5
4.Papel, Imprenta y Editoriales.	2.7	1.9	2.1	1.3	1.5	1.5
5.Quimica, Derivados Petróleo y Plásticos.	13.8	12.1	11.0	29.5	32.6	22.2
6.Ptos. de Minerales no Metálicos.	1.9	3.1	5.5	4.2	4.7	5.1
7.Industrias Metálicas Básicas.	4.0	1.9	3.9	4.1	3.7	5.6
8.Ptos. Metálicos, Maquinaria y Equipo.	9.4	18.0	13.0	25.3	35.7	40.0
9.Otras Industrias Manufactureras.	2.1	2.9	3.1	1.8	3.2	2.3

FUENTE: INEGI, Sistema de Cuentas Nacionales. Tomo V.
BANCO DE MEXICO.

TABLE 2

Real effective exchange rates — developing countries

Index numbers, 1980-82 average=100.

	Argentina	*Brazil*	*Chile*	*Colombia*	*Mexico*	*Peru*	*Venezuela*	*Hong Kong*	*Indonesia*	*Korea*	*Malaysia*	*Philippines*	*Singapore*	*Taiwan*	*Israel*	*Turkey*
1981	107.8	103.3	106.3	100.6	114.4	103.3	99.7	98.9	99.8	100.3	95.4	101.2	102.0	101.8	99.3	104.7
1982	77.0	112.9	97.3	105.9	82.9	104.6	110.2	101.6	111.7	101.9	106.6	106.7	100.8	96.6	106.6	96.0
1983	71.5	86.2	89.2	104.9	78.8	98.4	117.2	95.8	90.2	97.6	113.9	96.1	101.8	94.5	120.8	93.5
1984	80.1	85.7	90.1	99.8	91.8	105.8	86.0	100.2	98.8	96.5	119.7	107.9	102.4	97.1	119.5	91.1
1985	71.2	85.1	79.7	85.7	90.5	96.3	93.0	104.2	96.3	89.2	116.3	114.6	95.7	94.6	106.8	91.5
1986	61.0	74.5	68.7	67.7	65.1	93.6	87.2	93.9	72.3	73.9	96.2	90.2	80.3	87.3	100.9	71.1
1986																
May	60.8	72.8	68.5	68.1	65.7	90.6	89.8	95.2	80.2	75.1	92.9	88.4	79.1	88.4	101.5	71.3
June	61.3	73.0	70.3	67.7	66.6	91.9	90.2	96.1	80.4	75.4	93.1	87.4	79.3	89.5	101.9	70.8
July	61.5	72.1	69.5	66.7	65.0	92.0	89.8	91.7	78.1	70.8	91.9	87.8	78.6	89.0	100.9	68.7
August	60.9	72.1	67.9	66.0	62.3	91.8	89.7	90.3	78.6	69.7	91.5	85.7	78.5	89.0	99.4	67.7
September	58.8	72.4	67.6	65.9	60.6	93.5	90.0	92.2	61.8	70.3	91.0	86.5	78.0	84.9	100.4	67.4
October	58.8	71.6	67.7	64.9	60.5	96.7	90.7	92.2	55.4	70.6	93.0	88.1	77.5	84.6	100.8	67.6
November	59.4	72.9	68.1	64.6	60.7	100.8	92.2	94.8	56.3	71.8	94.9	89.0	78.6	85.4	102.0	65.7
December	58.7	75.9	68.0	64.5	59.7	105.1	60.4	93.5	56.0	72.0	93.2	90.0	78.6	86.7	102.1	64.6
1987																
January	58.2	75.6	65.5	65.3	60.7	107.6	52.7	89.4	54.7	70.3	91.2	87.5	76.4	85.0	94.4	63.5
February	55.6	71.8	66.2	65.6	61.2	93.4	53.2	88.9	54.6	70.8	91.4	85.8	74.8	84.6	93.3	63.2
March	53.4	71.1	66.8	65.0	61.9	96.3	53.1	89.0	53.8	72.2	90.5	85.4	74.3	87.5	94.7	64.2
April	53.3	74.4	64.4	64.6	62.9	97.5	52.8	88.8	52.3	72.5	90.1	82.1	73.2	88.8	94.8	63.7

Source : World Financial Markets
Morgan Guaraty Trust Company of New York,May 1987

TABLE 3

EVOLUTION OF IN-BOND EXPORT INDUSTRY

	Number of Establishments	Personnel Involved (Average)	Aggregate value (mill $)	Personnel Involved (Entire Industry)	In-bond Industry: $ total industry employment
1970			100.0		
1975	454	67,214	332.4	1.501,813	4.2
1976	448	74,496	365.6	1.649,360	4.5
1977	443	78,433	344.6	1.620,755	4.8
1978	457	90,704	452.3	1.803,825	5.0
1979	540	111,365	637.6	2.003,468	5.6
1980	620	119,546	771.7	2.231,372	5.4
1981	605	130,973	976.3	2.464,111	5.3
1982	585	127,048	851.3	2.369,641	5.4
1983	600	150,867	818.4	1.984,790	7.6
1984	672	199,684	1,155.3	2.044,334	9.7
1985	786	218 000	1267.5		
1986		268 000	1285.1		

Source : National Institute of Statistics,Geography and Information
Up to 1984 printed in Economic Situation of Mexico,Banamex
Banco de Mexico.

TABLE 4

TARIFF ITEM 807: PERCENTAGE DISTRIBUTION OF US IMPORTS FROM INDUSTRIALLY DEVELOPED AND LESS DEVELOPED COUNTRIES (DUTIABLE VALUE ADDED)

COUNTRY	1969	1970	1971	1972	1973	1974	1975	1976
WEST GERMANY	46.7	47.8	47.4	40.9	40.9	37.4	34.0	22.9
CANADA	13.5	11.6	12.8	11.9	8.3	7.7	9.3	10.0
UNITED KINGDOM	4.9	3.3	4.0	7.3	7.4	6.5	6.0	4.8
JAPAN	8.4	7.7	6.4	6.1	3.8	5.2	9.1	18.3
MEXICO	3.8	5.0	5.0	6.7	8.8	11.3	11.9	12.9
TAIWAN	3.4	3.8	4.0	6.7	6.9	6.8	5.8	6.5
HONG KONG	3.1	3.6	2.5	2.9	3.2	3.7	2.6	3.1
SINGAPORE	0.3	0.5	1.1	2.1	2.8	2.9	3.0	3.7
KOREA	0.5	0.4	0.5	0.6	0.6	0.9	1.0	1.8
HAITI	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.5
BRAZIL	0.1	0.1	0.1	0.1	0.4	1.2	1.4	1.6
PHILLIPINES	0.1	0.1	0.3	0.3	0.3	0.4	0.4	0.5
MALAYSIA	*	*	*	*	0.1	0.6	1.2	2.1

COUNTRY	1977	1978	1979	1980	1981	1982	1983
WEST GERMANY	29.5	29.1	22.5	20.9	17.5	19.3	16.6
CANADA	8.9	8.9	11.0	8.0	8.9	6.4	5.1
UNITED KINGDOM	3.9	4.5	3.8	2.0	1.8	1.6	0.9
JAPAN	18.0	19.6	22.0	31.8	34.1	36.7	38.8
MEXICO	10.2	10.0	11.8	11.1	10.8	10.2	11.2
TAIWAN	6.1	5.5	3.6	3.6	3.7	3.3	2.9
HONG KONG	3.2	2.6	2.6	2.9	3.4	1.2	2.3
SINGAPORE	3.3	2.7	3.1	3.2	3.1	3.5	4.4
KOREA	2.0	1.7	1.8	1.4	1.1	1.2	1.5
HAITI	0.5	0.6	1.0	0.5	0.5	0.4	0.4
BRAZIL	2.1	1.8	1.5	0.9	1.0	0.8	1.0
PHILLIPINES	0.6	1.0	1.2	1.6	1.7	1.9	1.7
MALAYSIA	1.9	2.2	2.8	3.2	3.1	3.2	3.1

SOURCE: INTERNATIONAL TRADE COMMISSION IMPORTS UNDER ITEMS 806.3 AND 807.

Senator BINGAMAN. Let me just ask you one question that occurs to me before we go on. In your prepared statement, you imply that Mexico is replacing Southeast Asian countries as an exporter to the United States. There have been several articles recently about Southeast Asian countries, particularly Japan, that have actually made investments in maquila plants. According to these articles, that is a trend that we're going to see more and more of.

Have you done any research, or do you have any opinions on the extent of the non-U.S. maquila activity that exists? We can anticipate an increase of foreign firms that are then being allowed to import into this country under particular arrangements?

Mr. DEHESA. Well, my statement was more narrow, in the sense that there has been a substitution of the production that goes through 806 and 807. Overall, the picture may change in Far Eastern countries and may have an increasing share in U.S. general imports. Just in the narrower definition of trade that goes through 806 and 807, Mexico has been gaining. That means that U.S. producers are supplying themselves from Mexican maquilas.

Let me just add that the only hard evidence I have seen, which is in the case of California, the U.S. counterpart of the maquilas located in Mexico tend to be small and medium sized U.S. industry, 60 percent of them.

There has been also a lot of attention drawn to the increasing presence of Japanese investors using maquila, but there are still relatively few maquilas and I don't really have hard evidence. I suppose—I mean, they can become very competitive under this arrangement, as far as the U.S. firms. In that sense, I think it's an opportunity for all of them.

Senator BINGAMAN. Thank you, Doctor. I'll probably have some other questions down the road. Mr. Ortiz, please go right ahead.

STATEMENT OF ROBERT ORTIZ, VICE PRESIDENT, FARAH MANUFACTURING CO., EL PASO, TX

Mr. ORTIZ. Thank you very much. Farah is a major producer of apparel products. We're located in El Paso, TX. I thank the subcommittee for allowing me to testify here today. It is indeed critical to the economic viability of the border region that congressional interest, such as that shown by this subcommittee, continue if this region is to develop and prosper.

The issues of competitiveness, manufacturing efficiency, and quality are paramount to U.S. industry, particularly at this point in our history.

Farah utilized U.S. labor, materials, and facilities exclusively until the early 1980's. Indeed, Farah continually fought for its perceived right to be a purely American company. Changing conditions have dramatically altered Farah's traditional views. Farah now operates manufacturing facilities in Ireland for adjacent markets, sells product in Japan, and utilizes production-sharing facilities in Mexico and the Caribbean for U.S. domestic sales. While still maintaining domestic production capability, Farah has engaged in offshore activities in order to lower the average cost of its product.

I can unequivocally state that if Farah had not altered its traditional methodologies, it would not be able to compete in today's highly competitive apparel market.

The clothing industry is one of the United States most protected. There are almost universal quotas on imports, and a very high duty rate. The range is about 25 percent. Additional measures demanding even further protection have been submitted to and enacted by Congress. The present administration vetoed a highly protectionist textile bill in 1985, and the veto was sustained by the vote of the House of Representatives in 1986. Quite frankly, Farah believes that additional protectionist measures are not appropriate. U.S. apparel companies can compete, but new and different strategies are required.

Peter Drucker has done sustantial work to identify the changes taking place in the global economy. He has noted three phenomena in articles appearing in a variety of publications. Farah's experience indicates Mr. Drucker is quite correct in his observations.

The changes are: The uncoupling of the primary products economy from the industrial economy; the uncoupling of production from employment in the industrial economy itself; and capital movements, rather than trade in goods and services, becoming the principal driving force in the world economy.

In reviewing the reasons for the uncoupling of the primary products economy, the following facts stand out. In early 1986, raw material prices were at their lowest level in recorded history in relation to the prices of manufactured goods and services—in general as low as during the Great Depression. Contrary to expectations, global agricultural output rose almost one-third between 1972 and 1985, to reach an alltime high, rising fastest in less-developed countries. Substantial import markets for food have all but disappeared.

The implications of these trends to both the United States and the lesser developed countries, such as Mexico, are patent. There can no longer be a substantial reliance on primary product exports.

Between 1973 and 1985, manufacturing production—measured in constant dollars—in the United States rose by almost 40 percent. Yet, manufacturing employment during that period went down steadily. There are now 5 million fewer people employed in blue collar work in U.S. manufacturing than there were in 1973. Yet, during the last 12 years, total employment in the United States grew faster than at any time in peacetime history—from 82 to 110 million from 1973 to 1985—by a full one-third. Unemployment has recently been stabilized in the 6 or 7 percent range, down substantially from previous levels. The entire growth, however, was in nonmanufacturing, and especially in non-blue-collar jobs.

There is surely a substantial need for systematic efforts to retain and to place redundant blue collar workers—something no country as yet appears to know how to do successfully. But to ignore this trend and protect jobs that can no longer exist in the present world ecomonic environment would not only be unrealistic but a ticket to failure.

That is why a number of countries have embraced the concept of production sharing; that is, to use their labor advantage to become subcontractors to developed-country manufacturers for highly labor-intensive work that cannot be automated—assembly operations, for instance, or parts and components. According to Peter Drucker and others, in countries with the most thorough automation, this still accounts for 20 to 50 percent of manufacturing production.

Production sharing is, of course, how Singapore and Taiwan bootstrapped their development. A significant midterm benefit of production sharing should be in the development of the lesser developed countries' markets for U.S. products.

Mexico's success with the maquiladora program results from a coordinated United States-Mexico effort to face ever-increasing international trade competition. Over the years, the industry has proved itself to be a viable option for helping U.S. firms remain competitive, particularly in the Pacific Rim, while keeping U.S. employment as high as possible. It has also provided Mexico with new foreign investment, new jobs, new markets for Mexican products through indirect exports, new high-tech production, and the generation of much-needed foreign exchange revenues.

The geographical spread between the border and nonborder locations for maquiladoras, notwithstanding the authorization for locations outside the original 20-kilometer border zone, has not changed during the last decade. In 1973, 373 out of 448 maquiladoras, or 83 percent, were located in the border area, compared with 784 out of 907 plants in August 1986.

Due to its proximity to the United States, the variety of products entering the United States under 806.3 and 807 tariff items from Mexico is broader than that of any other country. The share of U.S. content in 806.3 and 807 imports from Mexico is also greater than that from any other country.

It would be interesting to note also that Mexico is our third largest partner, even with some of the restrictive measures that you were talking about in Mexico. Obviously, while they're our third largest customer, we are their largest customer, also. So there is a production sharing there.

In El Paso, according to Project Link, the study performed by the University of Texas at El Paso, there are now 7,000 direct jobs resulting from the maquiladora program. These include employees of the companies owning the plants, suppliers to the plants, and direct customers. Other studies performed, including those of the Border Trade Alliance, indicate that over 1 million jobs located in 49 States are directly tied to the existence of maquiladoras. Somewhat surprisingly, the States principally benefiting are Illinois, Indiana, Michigan, Massachusetts, New York, Florida, California, and Texas.

The Border Trade Alliance Study included information from 175 plants that comprise close to 75 percent of the total maquiladora employment in Mexico. Therefore, the numbers presented are very conservative.

Farah's participation in the maquiladora process. Farah is a very active participant in maquila process and one of the largest apparel contributors in the tariff item 807 program. Most of Farah's production is through Farah-owned facilities rather than shelter operations common to most of this industry, principally as a result of the timing of Farah's entry and its corporate philosophy.

There have been few, if any, U.S.-owned maquilas established in the apparel industry during the last several years, due to limited U.S. export quota availability. This is the case because all apparel manufactured in Mexican plants, primarily of U.S. content, are applied against the quota restrictions of the United States. This self-imposed quota defeats U.S. competitiveness, in this case, since these are U.S. components.

Mexico has a recognized vested interest in preserving a portion of its domestic capacity—for if all U.S. export quotas were allocated to U.S.-owned maquilas or contract manufacturers, there would be no room whatsoever for Mexican manufacturing facilities engaged in export. It is doubtful that a significant number of additional maquila plants will be approved for apparel manufacture because of these constraints.

The built-in conflict between maquila production and Mexican domestic export production creates substantial short- and long-term problems. More and more, production quota will undoubtedly be moved to the domestic export manufacturers. Quite frankly, Farah has had a very difficult time challenging this position, as the United States has provided no real quota incentive to those companies utilizing U.S. components, and also because the United States is severely limiting access to its market by Mexican domestic exports.

To illustrate the use of U.S. components and the diversity of U.S. suppliers contracted by Farah, we have prepared a brochure. We'll have to mail that to you because we haven't quite—either the U.S. mail or I actually blew it and didn't get it out in time.

You will realize in that brochure that for each manufacturing dollar spent in conjunction with the 807 program, 81.3 percent of that value goes to direct support of U.S. companies, and 18.7 percent is actually spent in Mexico. The 81.3 percent translates into U.S. jobs for cutters, textile workers, packers, and others in the industry, not to mention U.S.-related supply jobs in farming for cotton, trucking, and merchandising.

The involved garment has rivets from Florida, Ban-Rol from Georgia, interlining from Illinois, New York, and Pennsylvania, barbs from Massachusetts, waistbands from Texas, tickets and labels from New Jersey, Utah, South Dakota, thread from North Carolina, piece goods and pocketing from South Carolina and Texas. This garment is very typical of apparel items produced by Farah in Mexico.

The quota limitations are so significant that certain items are already listed on published embargo reports. For example, prior to the end of last month, only approximately 40 percent of each quota category should have been filled. Category 347/348, which is men's and women's cotton trousers, such as blue jeans, was already almost 50 percent full, with real production peaks yet to be reached in July and August.

If this category terminates before yearend, as it most certainly will, then not only will there be significant difficulties in obtaining alternate import sourcing, but marketing and merchandising delays will occur as well. Not to mention the U.S. jobs that will be sacrificed throughout the supply change I just mentioned. Other categories are in a similar risk situation, certain of them running as high as 85 percent of usage at this point in the year.

The difficulty in obtaining quota has precluded existing U.S. apparel companies from expanding in Mexico, and new companies from utilizing the production-sharing benefits of the maquila program. A number of large U.S. apparel manufacturers have recently examined the feasibility of Mexican production, and have found quota simply unavailable.

Indeed, Farah itself may have to cut back in contract manufacturing it is performing for Levi Strauss and Genera Sportswear on former import production recently moved from the Pacific Rim. The Levi Strauss and Genera Sportswear situations are illustrative of just how potential jobs are being lost in the United States, notwithstanding a voluntary return of production from the Pacific Rim.

If I might just emphasize, these garments used to be made in the Orient. Now they're 100 percent U.S. components made in 806. Yet, to be embargoed, potentially, because of quota restrictions on our own product.

It makes no sense to consider tariff 807 production to be identical to an import. If 80 percent of a product's components are of U.S. origin, and only 20 percent is value added, then only 20 percent should be considered allocable for quota reduction purposes. This system is known as "fractionalized quota usage," and legislation has been proposed to allow for this type of treatment, particularly where there is a predominance of U.S. components.

To restrict the ability of U.S. manufacturers to either own or utilize Mexican production facilities, where jobs are being intentionally retained in the United States, is unconscionable. Apparel companies purchasing from the Pacific Rim buy components as well as the final assembly in the country of origin, precluding, for the most part, use of U.S. components.

There is another item of serious concern. If apparel products are assembled in Mexico of U.S. components at the request of a U.S. company, and then are shipped, directly or indirectly, to another nation for sale following some additional processing in the United States, such as permanent press, the products are still considered of Mexican manufacture and applied to U.S. quota in the applicable category. In other words, the incentive to use U.S. components with Mexican assembly and additional U.S. processing for markets other than the United States is lost.

The principal reason for use in maquila arrangements is to average the cost of production inventory, allowing a certain portion of production to remain in the United States. Unlike imports, this method of cost averaging retains substantial U.S. involvement, both in terms of labor and material. Thank you very much, Senator.

[The prepared statement of Mr. Ortiz, together with the brochure referred to, follows:]

PREPARED STATEMENT OF ROBERT ORTIZ

I am Robert Ortiz, the Vice President of Farah Manufacturing Company, a major producer of apparel products, located in El Paso, Texas. I thank the Committee for allowing me to testify here today. It is critical to the economic viability of the border region that Congressional interest, such as that shown by this Committee, continue if this region is to develop and prosper.

The issues of competitiveness, manufacturing efficiency and quality are paramount to United States industry, particularly at this point in our history. The daily press is replete with articles speaking to the "why's" of the apparent decline in the ability of United States industry to compete effectively in the world market place, as well as potential "solutions" to improve this nation's global economic position. We are told that improvements are needed in corporate infrastructure, which has allegedly become bloated and lazy, and that improvements are needed in production methods, quality control and other aspects of our manufacturing processes. The difficulty with much of the writing on the subject is that it ignores the stark reality of a changing world economy as well as the position in which this nation has placed itself as a result of massive budget deficits and the quantity of foreign capital necessary to keep our country afloat. While there is probably truth to the need for better leadership, management and attention to detail in our corporations, much of the problem can be tied to a failure on the part of companies to properly position themselves in a rapidly changing world economic environment.

Farah utilized U.S. labor, materials and facilities exclusively until the early 1980's. Indeed, Farah continually fought for its perceived right to be a purely "American" company. Changing conditions have dramatically altered Farah's traditional views. Farah now operates manufacturing facilities in Ireland for adjacent markets, sells product in Japan, and utilizes production sharing facilities in Mexico and the Caribbean for U.S. domestic sales. While still maintaining domestic production capability, Farah has engaged in offshore activities in order to lower the average cost of its product. I can unequivocally state that if Farah had not altered its traditional business methodologies, it would not be able to compete in today's highly competitive apparel market.

The clothing industry is one of the U.S.'s most protected. There are almost universal quotas on imports and a very high duty rate - in the range of 25%. Additional measures demanding even further protection have been submitted to and enacted by Congress. The present administration vetoed a highly protectionist textile bill in 1985, and the veto was sustained by a vote of the House of Representatives in 1986. Quite frankly, Farah believes that additional protectionist measures are not appropriate. U.S. apparel companies can compete, but new and different strategies are required.

I would like to address several issues, relating to these strategies, including the "why's" and legal basis for them, placing particular emphasis on production-sharing arrangements in which Farah is an active participant. It is this industry to which Farah has principally looked in order to retain its market position. In order to provide general background, I will first speak regarding:

- The changing world economy, and the importance of less developed countries such as Mexico.
- The production sharing industry, and improvements that might be made to eliminate unnecessary constraints.

I will then speak to a series of observations and suggestions that Farah has regarding the economic health of both its industry and this region.

THE CHANGING WORLD ECONOMY

Peter Drucker has done substantial work to identify the changes taking place in the global economy. He has noted three phenomena in articles appearing in a variety of publications. Farah's experience indicates that Mr. Drucker is quite correct in his observations.

The Changes

- The uncoupling of the primary products economy from the industrial economy.
- The uncoupling of production from employment in the industrial economy itself.

- Capital movements, rather than trade in goods and services, becoming the principal driving force in the world economy.

Uncoupling of Primary Products Economy

In reviewing the reasons for the uncoupling of the primary products economy, the following facts stand out. In early 1986, raw material prices were at their lowest level in recorded history in relation to the prices of manufactured goods and services (in general as low as during the Great Depression). Contrary to expectations, global agricultural output rose almost 1/3 between 1972 and 1985 to reach an all time high - rising fastest in less developed countries (LDC's). Substantial import markets for food have all but disappeared.

A number of commentators have observed that if the prices of non-oil primary products had been the same in 1985 as in 1973, the U.S. trade deficit might have been a full 1/3 less. Additionally, if primary product prices had not collapsed, America's balance of payments might have shown a substantial surplus. Japan's surplus might have been a full 20% lower.

Combined with the collapse in prices, and contributing to the overall effect, is the fact that demand for practically all non-farm commodities, whether forest products, minerals or metals is shrinking. The amount of industrial raw materials needed for 1 year of industrial production is now no more than 2/5th's of what it was in 1900 and the decline is accelerating. For example, in 1984, for every unit of industrial production, Japan consumed only 60% of the raw materials consumed for the same volume of industrial production in 1973, 11 years earlier.

This steady drop in the use of raw material processes and products extends to energy as well, especially to petroleum. For example, to produce 100 lbs. of fiberglass cable requires no more than 5% of the energy needed to produce 1 ton of copper wire. The implications of these trends to both the U.S. and LDC's such as Mexico are patent. There can no longer be a substantial reliance on primary product exports.

Uncoupling of Production from Labor

Notwithstanding talk about the deindustrialization of the United States, manufacturing production has risen steadily in absolute volume and has remained unchanged as a percentage of the total economy since the end of the Korean War - 23 to 24% of total GNP. Traditional levels have been maintained as well in all other major industrial countries.

Between 1973 and 1985, manufacturing production (measured in constant dollars) in the United States rose by almost 40%. Yet, manufacturing employment during that period went down steadily. There are now 5 million fewer people employed in blue collar work in U.S. manufacturing than there were in 1973. Yet, during the last 12 years, total employment in the U.S. grew faster than at anytime in peacetime history - from 82 to 110 million from 1973 to 1985 - by a full 1/3. Unemployment has recently been stablized in the 6%-7% range, down substantially from previous levels. The entire growth, however, was in non-manufacturing and especially in non-blue collar jobs. No increase in manufacturing production, no matter how large, is likely to reverse the long-term decline in the number of blue collar jobs in manufacturing or in the blue collar portion of the labor force, which is now 1 in 6 as opposed to 1 in 3 during the 1920's.

If a company or industry does not sharply increase manufacturing production and at the same time reduce its blue collar work force or its labor costs, it cannot hope to remain competitive. For example, it is well recognized that Britain went into industrial decline largely because the number of blue collar workers per unit of manufacturing production went down far more slowly than in all other non-communist developed countries. It now appears that a company or industry that puts the preservation of blue collar manufacturing jobs ahead of international competitiveness, which implies a steady shrinkage of such jobs, will have neither production nor jobs. As aptly stated by Mr. Drucker, the attempt to preserve blue collar jobs appears to be a prescription for unemployment.

Another perplexing development in manufacturing is the reversal of the dynamics of size. Since the early years of this century, the trend in all developed countries has been toward even larger manufacturing plants. The economies of scale greatly favored them. This trend has been reversed over the last 15 to 20 years. It has been observed that the entire shrinkage of manufacturing jobs in the U.S. has occurred in large companies beginning with the giants in steel and automobiles. Small and especially medium-size manufacturers have held their own.

In a number of industries, low labor costs are likely to become less of an advantage in international trade simply because in the developed countries they are going to account for less of total cost. This may not be the case in the apparel industry, however.

There is surely a substantial need for systematic efforts to retrain and to place redundant blue collar workers - something no country as yet appears to know how to do successfully. But to ignore this trend and protect jobs that can no longer exist in the present world economic environment would not only be unrealistic but a ticket to failure.

Capital Movements

It appears today that capital movements unconnected to trade - and indeed largely independent of it - greatly exceed trade finance. The surge of liquid funds flowing to petroleum producers after the two oil shocks of 1973 and 1979 was a major factor in this change. The U.S. government deficit also plays a big role. Indeed, it has continually been argued that it is the budget deficit that underlies the American trade and payments deficit. A trade and payments deficit is, in effect, a loan from the seller of goods and services to the buyer, that is to the U.S. Without it, the budget deficit could not be financed, at least not without risk of explosive inflation. In short, the U.S. has used high interest rates to attract foreign capital to avoid confronting its domestic deficit, and in the process has become the world's major debtor country.

Any firm exposed to the international economy has to realize that it is now in two businesses at the same time. It is both a maker of goods (or a supplier of services) and a financial business - it cannot disregard either. In the world economy of today, the "real" economy of goods and services and the "symbol" quality of money credit and capital are no longer bound tightly to each other. They are, indeed, moving further apart. Exchange rates, inflation, interest rates and other financial concerns are as critical to Farah's ability to manufacture as the traditional factors of supply and demand.

Transitions to Co-Production Arrangements

Rapidly industrializing countries such as Mexico must formulate new development concepts and policies. They can no longer hope to finance their development by raw material exports, such as oil. It is also becoming unrealistic for them to believe that their low labor costs will enable them to export large quantities of their own finished goods to developed countries. Existing markets, product knowledge and technological expertise are simply not present to a sufficient degree to allow for success.

That is why a number of countries have embraced the concept of "production sharing," that is, to use their labor advantage to become subcontractors to developed-country manufacturers for highly labor-intensive work that cannot be automated - assembly operations, for instance, or parts and components. According to Peter Drucker and others, in countries with the most thorough automation this still accounts for 15 to 20 percent of manufacturing production.

Production sharing is, of course, how Singapore, Hong Kong and Taiwan bootstrapped their development. Yet in many countries it has only been recently that production sharing has become politically acceptable. Mexico, for instance, has been deeply committed since its beginnings as a modern nation in the early years of this century to making its economy less dependent on, and less integrated with, that of the U.S. It has only been in the last 20 years, and the last 5 in particular, that Mexico has reluctantly acknowledged the real benefits of co-production.

Mexico is quite important for a variety of reasons, particularly to this region. It has been well recognized that the best solution to illegal immigration is to establish jobs in the home country that remove the real incentive to leave. The economic burdens and ripple consequences of a large undocumented alien population are well established. It is also quite apparent that those areas of Mexico that have developed industrially as a result of production sharing arrangements are not now exporting their citizenry but products. The State of Chihuahua is an excellent example. Notwithstanding the imposition of employer sanctions, eliminating the cross-border migration problem at its roots is a necessary long-term solution to the problem.

Given competition from the Pacific Rim through direct imports, the practical and economically sensible method to retain U.S. jobs is through expansion of co-production arrangements. Allowing the labor intensive portions of production to be performed elsewhere, retains both manufacturing control and skilled jobs here in the U.S. and still allows for sale of a price competitive product.

PRODUCTION SHARING

A background should be given regarding the legal framework of production sharing. In Mexico, this industry is known as the maquila or maquiladora industry. Maquiladoras are assembly plants operating under special customs treatment and foreign investment regulations. They are permitted to import, on a temporary duty-free basis, raw materials, machinery and equipment for the assembly or manufacture of semi-finished or finished products which are then exported back to the country of origin or a third country following the completion of the production process. Instead of a customs duty, a small bond is paid to the Mexican government on the temporary imports.

A significant mid-term benefit of production sharing should be in the development of LDC markets for U.S. products. Industrialized nations have come to the point that major difficulties are being encountered in attempting to sell specialized products to one another. While the competitive nature of this type of manufacturing will intensify, some companies succeeding and others failing in narrowly expanding markets, the real market opportunities are in the LDC's - if a large middle class develops. This is happening in Mexico. The differences in cities such as Matamoros, Juarez, Chihuahua and Tijuana are marked as compared to a decade ago. While wage rates may be low by U.S. standards, they still provide opportunities for work, consumer goods purchases and individual growth to an extent that did not exist previously.

Historical and Legal Background of the Maquiladoras

In 1965, the emergence of the maquiladora industry was the Mexican government's answer to the problem of high unemployment along Mexico's northern border to the United States. The program encouraged the establishment of foreign assembly plants through a relaxation of Mexican laws against foreign ownership of factories and a reduction of Mexican import taxes on raw materials.

President Gustavo Diaz Ordaz announced the program in September of 1965 and expanded on it in his annual message of 1966. In June of 1966, the Mexican government issued policy regulations for the Border Industrialization Program. Both the Ministry of Industry and Commerce (Industria Comercio) and the Ministry of the Treasury (Hacienda) were involved. Officials implementing the program were given discretion in its implementation.

In 1971, the policies and procedures regarding the program were formalized under standard regulations. The major change made that year was to extend the "border" program to a 20 kilometer wide strip from the Gulf to the Pacific Ocean. A resolution was passed in 1972 modifying the 1971 regulations. These provisions permitted assembly plants to be located anywhere within Mexico (except the Federal District). Additionally, a portion of plant output was to be allowed to remain in Mexico, depending on the percentage of local Mexican content.

In 1977, regulations were promulgated providing for an Inter-secretarial Commission for Development to coordinate the activities of the different federal agencies involved in the industry, and decreased to 20% the required percentage of local Mexican content for finished goods to remain in the domestic market. Machinery, instruments, tools, and spare parts were permitted to stay in Mexico as long as the program for which they were authorized remained in force.

On August 16, 1983, the 1977 regulations were replaced by a decree from President Miguel de la Madrid. The decree was based upon the new customs law and its regulations. The importance of promoting the establishment of companies contributing to a greater flow of foreign exchange in Mexico was emphasized, and a number of streamlined procedures were introduced.

United States Legal Background

The Border Industrialization Program has taken advantage of two items of the U.S. tariff schedules - 806.30 and 807.00. Item 806.30 is derived mainly from the provisions of paragraph 1615(g) of the Tariff Act of 1930, as amended. This item originated in the Customs Simplification Act of 1956, which was to encourage the processing of United States metal articles in contiguous areas of Canada during plant breakdowns and emergencies in the U.S., and has not been amended since its inception.

Item 807.00 had no counterpart prior to its entry in the tariff schedules in August of 1963. This item was created to document a common trade practice, which had started after a ruling by a United States Customs Court in 1954 under paragraph 1615(a) of the Tariff Act of 1930. Commencing in 1954, American made components assembled into foreign articles were allowed free entry in the U.S. under the theory of "constructive segregation."

The duty to be applied on an article entering the U.S. under item 807.00 is usually determined by calculating the "constructed value" of the assembly minus the value of the U.S. components. This "arms length price" is often the result of negotiations between the assembly firm and U.S. Customs. Labor, plant overhead and the value of the input of the U.S. parent firm are considered in determining this "price." In October of 1975, Part 10 of the Customs Regulations was prepared by the U.S. Customs Service to flesh out the interpretive regulations of item 807.00.

The Success of the Maquiladora Program

Mexico's success with the maquiladora program results from a coordinated U.S.-Mexico effort to face ever increasing international trade competition. Over the years, the industry has proved itself to be a viable option for helping U.S. firms remain competitive, particularly in the Pacific Rim, while keeping U.S. employment as high as possible. It has also provided Mexico with new foreign investment, new jobs, new markets for Mexican products through indirect exports, new high-tech production, and the generation of much-needed foreign exchange revenues.

The maquiladora industry has blossomed in the last decade, growing from an employment of 74,500 and a total value added of 366 million dollars in 1976 to its 1986 position of providing over 300,000 jobs for Mexican workers and becoming the second largest dollar earner in the Mexican economy, just behind oil exports, with a total value added of 1.35 billion dollars. These figures show an average annual growth slightly higher than 10 percent for value added and above 12 percent for employment. The number of plants in operation has also grown significantly - from 448 plants in 1976 to approximately 1,000 in December 1986, a 76 percent growth in ten years.

The geographical spread between border and non-border locations for maquiladoras, notwithstanding the authorization for locations outside the original 20 kilometer border zone, has not changed during the last decade. In 1973, 373 out of 448 maquiladoras (83%) were located in the border area, compared with 784 out of 907 plants in August of 1986 (86%).

In 1985, Mexican exports to the U.S. under tariff items 806.30/807.00 totalled more than 45 percent of the less developed countries (LDC's) total exports to the U.S. under these tariff items, up from 35% in 1982, far more than those of other developing countries such as Singapore (15%) Taiwan (8%) and Hong Kong (6%).

Due to its proximity to the United States, the variety of products entering the U.S. under 806.30/807.00 tariff items from Mexico is broader than that of any other country. The share of U.S. content in 806.30/807.00 imports from Mexico is also greater than that from any other country.

According to the American Chamber of Commerce in Mexico ("Amcham") 95% of the total value added of U.S. imports under tariff items 806.30/807.00, from a group of 22 developing countries, was generated by 676 specific products. This same analysis indicates Mexico had some form of comparative advantage in 438 of these products, or 65% of the total.

Analysts foresee very little change in the basic growth trends of the industry. Amcham projections for 1987 indicate that the industry will generate almost 1.5 billion dollars in value added income for Mexico, an increase of 11 percent, significantly higher than the estimated 5 percent growth in 1986. Concerning employment, estimates are that the maquiladora industry will provide close to 350,000 direct jobs in Mexico by the end of this year, with the total number of plants expected to reach 1,200 during the same period.

In El Paso, according to Project Link (the study performed by the University of Texas at El Paso), there are now 7,000 direct jobs resulting from the maquiladora program. These include employees of the companies owning the plants, suppliers to the plants and direct customers. Other studies performed, including those of the Border Trade Alliance, indicate that over 1 million jobs located in 49 states are directly tied to the existence of the maquiladoras. Somewhat surprisingly, the states principally benefitting are Illinois, Indiana, Michigan, Massachusetts, New York, Florida, California and Texas. The Border Trade Alliance study included information, from 175 plants that comprise close to 75% of the total maquiladora employment in Mexico. Therefore, the numbers presented are very conservative.

Farah's Participation in the Maquila Process

Farah is a very active participant in the maquila process and one of the largest apparel contributors in the tariff item 807.00 program. Most of Farah's production is through Farah owned facilities rather than "shelter" operations common to most of this industry, principally as a result of the timing of Farah's entry and its corporate philosophy. There have been few, if any, new U.S.-owned maquilas established in the apparel industry during the last several years, due to limited U.S. export quota availability. This is the case because all apparel manufactured in Mexican plants, whether Mexican or U.S. owned, is considered an export of Mexico. Therefore, availability of quota becomes critical.

Mexico has a recognized vested interest in preserving a portion of its domestic production capacity - for if all U.S. export quota were allocated to U.S. owned maquilas or contract manufacturers, there would be no room whatsoever for Mexican manufacturing facilities engaged in export. It is doubtful that a significant number of additional maquila plants will be approved for apparel manufacture because of these constraints. The built-in conflict between maquila production and Mexican domestic export production creates substantial short and long-term problems. More and more production quota will undoubtedly be moved to the domestic export manufacturers. Quite frankly, Farah has had a very difficult time challenging this position as the U.S. has provided no real quota incentive to those companies utilizing U.S. components, and also because the U.S. is severely limiting access to its market by Mexican domestic exports.

To illustrate the use of U.S. components and the diversity of U.S. suppliers contracted by Farah, a brochure has been provided to you. As you will notice, regarding the Farah garment that has been depicted, for each manufacturing dollar spent in conjunction with the 807.00 program, 81.3% of that value goes to direct support of U.S. companies and 18.7% is actually spent in Mexico. The 81.3% translates into U.S. jobs for cutters, textile workers, packers and others in the industry, not to mention U.S. related supply jobs in farming, trucking and merchandising. The involved garment has rivets from Florida, Ban-rol from Georgia, interlining from Illinois, New York and Pennsylvania, barbs from Massachusetts, waistband from Texas, tickets and labels from New Jersey, Utah, and South Dakota, thread from North Carolina, piece-goods and pocketing from South Carolina and Texas. This garment is very typical of apparel items produced by Farah in Mexico.

The quota limitation is so significant that certain items are already listed on published embargo reports. For example, prior to the end of last month only approximately 40% of each quota category should have been filled. Category 347/348 (mens and womens cotton trousers, such as blue jeans) was already almost 50% full with real production peaks yet to be reached in July and August. If this category terminates before year end, as it most certainly will, then not only will there be significant difficulties in obtaining alternate import sourcing, but marketing and merchandising delays will occur as well. Other categories are in a similar risk situation, certain of them running as high as 85% of usage at this point in the year.

The difficulty in obtaining quota has precluded existing U.S. apparel companies from expanding in Mexico and new companies from utilizing the production sharing benefits of the maquila program. A number of large U.S. apparel manufacturers have recently examined the feasibility of Mexican production, and have found quota simply unavailable. Indeed, Farah itself may have to cut back in contract manufacturing it is performing for Levi Strauss and Genera Sportswear on former import production recently moved from the Pacific Rim. The Levi Strauss and Genera Sportswear situations are illustrative of just how potential jobs are being lost in the U.S. notwithstanding a voluntary return of production from the Pacific Rim.

It makes no sense to consider tariff item 807.00 production to be "identical" to an import. If 80% of a product's components are of U.S. origin, and only 20% is value added, then only 20% should be considered allocable for quota reduction purposes. This system is known as "fractionalized quota" usage and legislation has been proposed to allow for this type of treatment, particularly where there is a predominance of U.S. components. To restrict the ability of U.S. manufacturers to either own or utilize Mexican production facilities, where jobs are being intentionally retained in the U.S. is unconscionable. Apparel companies purchasing from the Pacific Rim buy components as well as the final assembly in the country of origin, precluding for the most part use of U.S. components.

There is another item of serious concern. If apparel products are assembled in Mexico of U.S. components at the request of a U.S. company, and then are shipped (directly or indirectly) to another nation for sale following some additional processing in the U.S., such as permanent press, the products are still considered of Mexican manufacture and applied to U.S. quota in the applicable category. In other words, the incentive to use U.S. components with Mexican assembly and additional U.S. processing for markets other than the U.S. is lost.

The principal reason for use of maquila arrangements is to "average" the cost of production inventory, allowing a certain portion of production to remain in the United States. Unlike imports this method of cost averaging retains substantial U.S. involvement both in terms of labor and material.

OBSERVATIONS AND SUGGESTIONS

There are several observations and suggestions I would like to make in conclusion:

- Given the nature of the changing world economy, we must recognize that the blue collar labor force will continue to decline in most industries, even in the apparel industry, which is labor intensive. Industries that do not recognize this ongoing process will be at a significant competitive disadvantage.
- Arrangements such as production sharing allow for utilization of inexpensive offshore labor and retention of U.S. resources in industries that might not continue to exist without the advantages provided. These arrangements also create new LDC markets for U.S. domestically produced exports as well as assist in limiting the migration of undocumented aliens.
- Changes should not be made to existing laws allowing for production sharing arrangements as many companies and industries would be put at a severe competitive

disadvantage. Co-production has proven to be the principal means to allow U.S. companies to compete directly with foreign imports when matched head-to-head on labor intensive products.

- Modifications to the existing apparel quota system are required in order to allow for continued and expanded utilization of U.S. resources. These modifications include fractionalized quota where there is a use of U.S. components and the ability to ship to third countries, without allocations to the country of origin, in situations where there has been further U.S. processing. So long as the product does not remain in the U.S., there appears to be no public policy reason to restrict manufacturing capability (particularly where U.S. components are utilized).

- Infrastructure along the Mexico/U.S. border requires improvement in order to facilitate the expansion of U.S. industry. This includes the streamlining of customs procedures, the expansion and improvement of physical plant at the various ports of entry, as well as adequate personnel to staff facilities. At this time, lengthy and unwarranted delays are being experienced that severely affect the potential for future growth.

I would like to thank you again for allowing me to appear before you today.

(From the Farah Brochure)

The 807 Program promotes the security of U.S. jobs. Why? Because the 807 Program allows U.S. manufacturers and marketing companies to utilize U.S. components, assemble them with a Caribbean or Mexican partner and still provide the U.S. consumer a quality product at a competitive price. In other words, 807 allows U.S. manufacturers the opportunity to stay competitive in world markets.

For example, on the Farah garment shown, for each manufacturing dollar spent in conjunction with the 807 Program, 81.3% of that value goes for the direct support of U.S. jobs and 18.7% is actually spent in Mexico. In essence, 81.3% translates to U.S. jobs for cutters, textile workers, packers, etc., not to mention the other U.S. related supply chain jobs like farmers, truckers and merchants.

In summary, Farah actively promotes the security of U.S. jobs through the 807 Program. Additionally, it's through the 807 Program that Farah provides U.S. consumers a quality product competitively priced.

We have graphically displayed on the following pages the positive impact that 522 (maquiladora) jobs have on the U.S. work force. Please note, the jobs shown are just a small part of the total 34,533 U.S. jobs that were also a part of our product.

MEMBER, U.S. APPAREL INDUSTRY COUNCIL

POMPANO BEACH
LA GRANGE
CHICAGO
FITCHBURG
VALLEY STREAM
MARION
GASTONIA

Rivets From Florida

Stimpson
Pompano Beach, FL 10 employees

Ban-Rol® From Georgia

Carpet Service Center
La Grange, GA 60 employees

Interlining From Illinois

Quick Service
Chicago, IL 60 employees

Barbs From Massachusetts

Dennison Manufacturing
Fitchburg, MA 200 employees

Woven Label From New Jersey

Montabert
Midland Park, NJ 45 employees

Interlining From New York

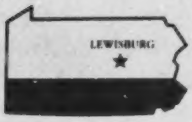
Apex Mills
Valley Stream, NY 200 employees

Thread From North Carolina

American Thread Company
Marion, NC 215 employees

Thread From North Carolina

Threads U.S.A.
Gastonia, NC 1,800 employees



Soabar® Label From Pennsylvania

Soabar Company
Philadelphia, PA 200 employees

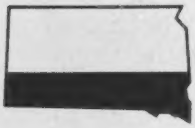
Interlining From Pennsylvania

International Paper
Lewisburg, PA 2,000 employees

SPARTANBURG

Piece Goods & Pocketing From South Carolina

Milliken
Spartanburg, SC 25,000 employees*



Waistband Tickets From South Dakota

Modern Press
Sioux Falls, SD 188 employees

EL PASO
DALLAS

Pocketing From Texas

Dal Bac
Dallas, TX 20 employees

Waistband From Texas

Dallas Bias
El Paso, TX 18 employees

SALT LAKE CITY

Flasher Label From Utah

Winborg
Salt Lake City, UT 36 employees

*Source D & B; no other information available.

Senator **Bingaman**. Thank you very much. Let me ask one or two questions, if I could, before we go on. You make a point that if you assemble a product in Mexico with U.S. components, and then as I understand it, you ship it to another nation for some additional work, the product is still considered to be a Mexican manufacture. So you're saying that the incentive for a U.S. firm to assemble in Mexico and then export is being lost; is that the point?

Mr. **Ortiz**. Let me clarify for you a little bit, because it is a little bit confusing. It took me 2 years to figure it out.

Senator **Bingaman**. I hope it doesn't take me quite that long.

Mr. **Ortiz**. In these days of laws, it's very confusing. I could not understand how we can grab our product, take it to Mexico, and yet we need to further finish it in the United States, and we want to ship it to England, and we do not pay duty on it because they say it's not going to stay in the United States, but they apply it against the quota in Mexico. So we cut some goods, we send them to Mexico, we bring them back to further process, which means U.S. jobs, and then we want to export it to the United Kingdom, and they apply that against quota. So it discourages the ability to use 807 as an export vehicle to other countries on a competitive basis.

Senator **Bingaman**. You're saying that any product that we send to Mexico for part of the assembly process, and then bring back here, but is really being assembled for export out of this country to another country, ought to be exempt from the quota that we impose on Mexico?

Mr. **Ortiz**. Yes, and they do except it from duty, so I can't make sense of it for that. We do not pay duty for that item, because it's not staying in the United States. Yet, they apply it against quota. This is a competitive edge that we need against many countries to export.

Senator **Bingaman**. All right. I'll have some other questions as we go forward here. Mr. Dodson, we're glad to have you. Please go right ahead.

STATEMENT OF CHARLES H. DODSON, JR., CHAIRMAN, ELAMEX, S.A., JUAREZ, MEXICO

Mr. **Dodson**. Thank you, Senator, for inviting me today. I'm the chairman of Elamex, which is an independent maquila operation in Juarez, providing contract and shelter assembly operations.

We founded this company in 1973 and it has grown to approximately $25 million in sales now. We have about 2,300 employees and 400,000 square feet of manufacturing space. I might mention now that out of 2,300 employees, there are 5 non-Mexican people, myself and 4 technical people.

Previously, I was the vice president and general manager of the Ampex magnetic tape operation in Juarez. We started that in 1971. When we started that operation, there were 8 or 10 maquila plants in Juarez with approximately 2,500 or 3,000 total employees. Today there are something over 200 plants, just in Juarez, and something over 85,000 employees. Everytime you look at this, this number seems to go up. Depending upon whom you're talking to, you'll have a different number.

Senator BINGAMAN. Have there been some new maquila plants opened this year?

Mr. DODSON. Yes, sir. There are a number of new plants. Actually, going back over the last 15 years, there has been a rather regular growth, year after year. Some years, I think along about 1982, a little spurt. Sometimes the slope gets a little bit steeper, but it's been a steady growth, not only here. Juarez represents probably about one-third of the maquila operations, with Ciudad Chihuahua a total of about 40 percent. The rest of the operations are spread out primarily along the border, but throughout Mexico.

There are a number of benefits to U.S. manufacturers having a maquila plant in Mexico. Two of them, the closeness to the U.S. market, and at the same time the ability to use U.S.-made material and components.

Over the years, I have looked at a number of projects where people are very interested in using U.S. components material because of the high degree of automation, the good quality, the ontime delivery, and the good price. But they need to have them assembled in some other location. This American material qualifies as return to the United States under 807, which has been mentioned many times. I would like to add, however, that 807 predates the maquila program. Many people confuse this and feel that the United States started 807 in order to help this program. It didn't. It predates it; 807 is also used in Korea, Japan, Hong Kong, Taiwan, and so forth.

Senator BINGAMAN. I guess Mr. Dehesa's chart here shows that the largest user of 807 is Japan, right?

Mr. DODSON. Yes. One of the interesting things—I don't know what year is that chart, but Japan has about half of 1 percent of American material in their maquila operation, or under 807 provision; whereas, Mexico, for the average, uses about 50-percent American material in their 807 entries.

Senator BINGAMAN. According to table 4, for tariff item 807, under the column with the percentage of distribution of imports from industrially developed and less-developed countries, in 1983, 38.8 percent came from Japan.

Mr. DODSON. Yes. I believe that number is about $40 billion in 1983 in Japan as well. The number I was mentioning is—I think if you'll look at that, the amount of American material in that, if we're looking at the same data, it is about half of 1 percent of that total value. Whereas, if you look at the imports from Mexico under 807, you'll find that approximately half of the value of the import is American material.

Now, there are some products we assemble for 13 different companies. There are a number of companies that we assemble for that we're using almost 100 percent American material. We have some others where we're doing electronics, where we're doing approximately half American material, and half material coming from the Far East.

There are a number of other benefits to the maquila operations in Mexico, such as easier communications. You don't have to get up in the middle of the night to call Hong Kong. It's more convenient traveling. I have been to Chicago for a meeting and returned the same day. I don't recommend it, but you can't do that to the

Far East. It's also easier to provide management coordination, engineering coordination, here in Mexico than it is in the Far East.

However, given all of these benefits, the most important benefit is the economics of the offshore assembly. This means a difference, for certain American manufacturing companies, between losing certain U.S. market segments to foreign competitors or being able to compete profitably.

We have heard a lot about the economies of offshore operation, and for the inclusion of my presentation, I would like to use the flip chart there and go through a typical situation.

Now, this project has been modified to make it flow a little bit easier, but it basically represents a true situation of a company in Pennsylvania, which we would assemble printed circuit boards for. You see a schedule there of 30,000 boards per month. Those boards will be used in a computer-type application. Those boards would be assembled. You see there's some direct labor standards. They would be assembled; they would be tested; they would be ready to go into the finished unit. These are not just partially done.

These are complete boards with capacitors, resistors, in some cases they also have receivers mounted on them, and so forth. This manufacture is in Pennsylvania. They will ship us some material. We would return it there. You can see there is some equipment we would use. Down at the bottom of the page, I have converted those standard hours in that schedule of 30,000 per month to show that we need approximately 100 direct labor operators.

Turn to the next page, if you would, please. Here I have tried to show you 100 direct labor operators—those are the first three lines—plus all the indirect operators that are necessary to support them. And in the cost per hour, you see, for example, in the first line, $3.25. The cost is the salary, fringe benefits, factory overhead, GNA, and profit.

When you make the extension on all of those people you see that, in hours of operation, it costs a little over $500, or $508.55. Now, if I divide that by——

Senator Bingaman. You have the profit in that cost figure as well?

Mr. Dodson. Yes, sir, GNA, profit, factory overhead, accounting, personnel, Christmas party, everything. Christmas party is very important.

You get down to $508 there. If I divide that by 100 direct labor operators, it comes down to $5.09 an hour to assemble. Now, that board, which took 0.66 hours or about two-thirds of an hour, about 40 minutes, then costs $3.40 to assemble.

Let me mention at this point that I was recently in Brazil, Argentina, Chile, and the rates of labor that we're paying in Mexico are very comparable to those three areas. Last summer, I was in Korea, and the rates are very similar there. Hong Kong, Taiwan, and Singapore, are not very much different. Japan, however, is considerably higher.

Recently, we had a Japanese fellow, and he was very, very anxious. He says, "We have to do something, those Koreans, they assemble too cheaply." So he's looking for some way to be able to compete with the Koreans. I might mention that when I was in Korea, they work six 10-hour days in their factories. In management, it is not uncommon for them to work seven 12-hour days, doing engineering, processing, parts reviews, and these types of things. So they work hard. They work economically——

Senator BINGAMAN. What are the hours of your operations?

Mr. DODSON. Our operation is 6:30 to 4:30. We work five 9½-hour days. The standard workweek to Mexico is 48 hours, and the law allows you to adjust that for the convenience of the management and employees. Employees normally don't want to work on Saturday, so we work a 5-day week.

Will you turn to the next page, please. Here I have tried to determine the customs associated with this particular—that's the U.S. duty that's associated with that. You see, I have started out—I have put the assembly operation. There's $7.29 of the American material, and the $5.96 of the foreign material. Supplies are things like solder, flux, and epoxies, and those types of things; U.S. packaging; there's some equipment amortization. The total value of $17.20.

We can subtract from that to determine the dutiable value of those materials that qualify under 807. So you see $7.29 there, and 0.05 of U.S. packaging under 807, makes a dutiable value of $9.86. The duty rate for that type of item happens to be under classification 676.5230. The rate was 4.3 percent in 1985. So when we multiply, that board would have, per board, a duty rate or a duty of 42 cents per board.

Flip to the next page, please. Now, in order for our customers to evaluate the cost of the board as he would make it, and as we would make it, I tried to make a unit cost in his factory so he can compare apples and apples. So I put the assembly. I put the freight, the round trip, the supplies you saw before, the installation installed. That's how we put our equipment in Juarez. The U.S. duty, we just calculate the packaging material and the equipment amortization. You'll see some of the numbers in there that are included in the calculation of the duty.

Anyway, that comes to a cost of $4.57, that he can compare to the cost of his doing the operation there in Pennsylvania. There are three or, rather, four items of cost with a little curlicue, purple curlicue on the left there. The 12 cents for freight, the 8 cents, the 42 cents, and the 5 cents—those are costs that are peculiar to doing business in Mexico, because we had to move the material from Pennsylvania, do the work, and send it back. That comes out to be about two-thirds of a dollar.

Now, on the next page, I'm going to compare costs by the hour and not the cost per board. So I have simply converted that 60, 66.7 cents, to an hourly rate of $1.

Senator BINGAMAN. If we can get that firm to move to Dona Ana County, it would save 12 cents, right?

Mr. DODSON. It probably—turn the page and I'll show you something here. Well, you would save the 12 cents, and you would save the 42 cents duty, and you have to place yourself someplace on this chart.

Now, what this chart is—I hold a lot of seminars, so I say to people, here is a comparison, and we took some values out of Pennsylvania. You can see, we're talking about an assembly operator in "A" of $4.50, "B" of $8 an hour, and "C" $12 an hour. I have people say, "Hey, $4.50 is too low," and a guy will put his hand up and say, "No, I have got some even lower than that."

There are some operations in the State, in Pennsylvania, that are paying $3.35 an hour for assembly operations. On the other hand, I have talked to people on the other end that are paying $40 an hour for assembly operations in the States. That's just the direct labor hour. So $4.50 to $12 just gives you some numbers, you can plug in any numbers you want and run through the same. This is a model, basically.

OK, then I put fringe benefits in there. It will run from 30 percent up to 50 percent. General Motors, I hate to think what their fringe is. It's terrific. Factory overhead, you have anywhere from 100 percent on the left down to about 75 percent on the right. Both the fringes and the factory overhead, those are good percentage numbers. So you add them up, and you see that a total manufacturing cost, fully burdened, that compares with our $5.09, runs anywhere from $11.50 to $31.50.

Now, I put that duty in there—I mean, that freight, duty package, packing and installation of $1. So, again, we're talking about apples and apples in Pennsylvania. So you can see the range now. I put it down below. Subtract it, and you can see the savings per hour go from $5.41 over to $25.41. It could be less in some cases, and it could be more in other cases.

Now, the operator works 2,400 hours a year, and not 1,600 to 2,000 hours a year, as many U.S. plants. So the savings per direct labor operator in a maquila in Mexico, you see, can rank anywhere from $13,000 a year to $61,000 in those three examples. If you multiply that by 2,400 hours, which we just did—excuse me. Then if you go down and say, OK, I have got 100 operators, you can see that the savings in a plant in this type of example could run anywhere from $1.3 million to $4.3 million to $6 million, a little over $6 million. Those are savings.

Now, it's very easy to have 300 or 400 direct labor operators in a maquila plant. As a matter of fact, the average in Juarez is probably about 300. The average in Tijuana is probably a little over 100. You multiply that, and you see you're talking about something that ranges anywhere from $4 million a year savings to almost $25 million a year savings.

It's those potential savings that are extremely important to the American manufacturing companies. That potential savings gives them the capability of continuing in business, in some cases, or forfeiting the market to a foreign competitor. That, basically, is the bottom line, and is the bottom line that ultimately, factored in with all of the other advantages and all the other disadvantages, is the reason that the maquila operation is growing. Thank you.

[The prepared statement of Mr. Dodson follows:]

PREPARED STATEMENT OF CHARLES H. DODSON, JR.

Gentlemen:

Thank you for inviting me to testify at this hearing of the Joint Economic Committee on the subject of U.S. - Mexico Economic Relations. I would like to explain some of the economic benefits for a U.S. company which operates a Maquila plant in Mexico.

I am the Chairman of Elamex S.A., an independent contract and shelter assembly operation in Juarez, Mexico. We started this operation in 1973 and it has grown to approximately $25 million per year sales with 2300 people and 400,000 sq. ft. of manufacturing space. Previously, I was the V.P. and General Manager of the Ampex Magnetic Tape operation in Juarez. In 1971, when I started Ampex, there were perhaps 8 or 10 maquila plants in Juarez with 2500 or 3000 employees. Today there are over 200 maquila plants and 85,000 employees in Juarez alone.

There are a number of benefits to U.S. companies having a Maquila plant in Mexico. These include the ability to use U.S. made material and components. Article 807 of the U.S. customs regulation, that allows the duty free reentry of qualifying American materials, was not developed specially for the Maquila program. Article 807 predates the Maquila program and is applicable to Korea, Japan, Hongk Kong, Taiwan, etc. Mexico, though, uses the highest percentage of American material in its Maquila program.

Other benefits include easier communications, more convenient travel schedules and closer management coordination than is possible with Far East operations. However, the most important benefit is the economy of offshore assembly. This means the difference between losing certain U.S. market segments to foreign competitors or being able to compete profitably.

I would like to review a typical project for you so that you can see the potential economic benefit of a Maquila operation shown in the attached exhibit. The details of the project description are shown on page 1, the Maquila cost projection is shown on page 2, the U.S. customs valuation calculation is on page 3, the Unit Cost Estimate is on page 4, and the Potential Savings Analysis is covered on page 5.

The project description covers the assembly of a printed circuit board used in a computer application by a Pennsylvania manufacturing company. The quantity scheduled and the labor standards were used to determine that 100 direct labor operators are required. Please note that the standard work hours are 2400 hours per year and not the 2000 hours common in the U.S. The bill of material is shown with a division between the U.S. and foreign materials. If this board were manufactured in the Far East, the $7.29 of American material would probably be foreign material as well. The other data is used to estimate the freight to and from El Paso and calculate the U.S. duty.

The second page is the calculation of the assembly cost per hour and the unit cost for each printed circuit board. The manning table lists the direct and indirect personnel required in the project with their burdened hourly charges. These burdened charges includes fringe benefits, factory costs plus general and administrative expenses. The total hourly cost is $5.09 per standard labor hour. Using .667 standard hours to assemble each board, the assembly cost per board is $3.40 fully burdened. The hourly cost will be compared with three typical U.S. costs on page 5.

The U.S. duty is calculated on page 3. The assembly cost determined above is entered along with the U.S. and foreign materials given in the project description. Both supplies and packing are estimated and the equipment amortization is calculated based on a five year useful life. These costs total $17.20. The dutiable value of $9.86 is determined by substracting the qualifying 807 American material and the qualifying 800 American packing material. The duty rate is assumed to be 4.3%, which is typical of electrical or electronic products of classification 676. The duty is $.42 per board based on $9.86 value times the 4.3% duty rate. Please note that the duty would be only $.313 higher if the 807 exemption were eliminated and the U.S. Material were dutiable as the foreign materials are.

On page 4, we have estimated the total cost of an assembled printed circuit board delivered to the Pennsylvania factory. The cost includes freight for material and from Pennsylvania to El Paso and back to Pennsylvania for the assembly, the extra equipment installation cost of $.08, the U.S. duty and the required packing material. The total cost including all burdens is $4.57 per board. The extraordinary Maquila portion of this cost is $.67 per board. Converting this cost from a per unit to a per hour basis gives $1.00 extra cost per hour. This allows a comparision on a per hour basis, rather than a per unit basis.

On page 5 there are comparisions of the hourly costs at Elamex, a Mexican Maquila, and three operations in the U.S. with different labor costs. The three direct labor costs of $4.50, $8.00 and $12.00 per hour are not the lowest U.S. wages, nor the highest, but give a good range for comparision purposes. We have used a range of fringe benefits from 30% to 50% and a range of factory overheads from 100% to 75%. One may use this model to calculate any combination of labor rates, burdens and factory overheads to determine estimates savings vs. a particular set of costs.

We added the $1.00 per hour extra costs and the $5.09 Elamex hourly cost to determine a comparable cost for a factory in Pennsylvania. If $6.09 is substracted from the total costs of columns A, B, and C, the total savings per hour are determined. Multiplying the savings per hour times 2400 hours per year calculates the savings per year per direct labor operator at Elamex. Since the sample project requires 100 direct labor operators, the total yearly savings range from a little over $1,000,000 to a little more than $6,000,000.

While there are many benefits to a U.S. company having a Maquila operation, the potential savings from offshore assembly is most important. These savings can mean the difference between continuing in business or forfeiting a market to a foreign competitor.

Thank you for your time this afternoon.

PROJECT DESCRIPTION

1. PRODUCT: Printed Circuit Board Assembly
2. VOLUME: 30,000 per month
3. DIRECT LABOR STANDARD: .567 hrs. per board assembly
   .10 hrs. per board test
4. SIZE AND WEIGHT: 6" x 6" x 1" 4/#
5. BILL OF MATERIAL COST: $13.25
   FOREIGN PORTION COST: (45%) $5.96
6. MATERIAL SHIP POINT: Pennsylvania
   PRODUCT RECEIVING POINT: Pennsylvania
7. CONSIGNED EQUIPMENT VALUE: $260,000 used
   USEFUL LIFE: 5 years
8. SPACE REQUIRED: 150 sq. ft./ per operator (Production, Warehouse, and Allocated Space)

CALCULATION OF DIRECT LABOR REQUIREMENT

(DL STD + TL STD) x MONTHLY VOLUME ÷ 200 hrs/month

(.567 + .1) 30,000 ÷ 200 = 100 DIRECT LABOR

COST PROJECTION

MANNING TABLE

Direct Labor	Cost/Hour	Number	Extension
OPERATOR	$ 3.25	80	$ 260.00
SPECIAL OPERATOR	3.50	15	52.50
ELECTRONIC TECHNICIAN	5.80	5	29.00
TOTAL DIRECT LABOR		100	$ 341.50
Indirect Labor			
MATERIAL HANDLER	$ 3.25	4	$ 13.00
Q.C. INSPECTOR	4.20	3	12.60
Q.C. INSPECTOR	5.00	3	15.00
MECHANIC	5.80	3	17.40
GROUP LEADER	5.00	6	30.00
WAREHOUSEMEN	5.00	2	10.00
PRODUCTION CONTROLLER	7.20	1	7.20
MATERIAL SUPERVISOR	7.20	1	7.20
Q.C. SUPERVISOR	7.20	1	7.20
PRODUCT ENGINEER	11.35	1	11.35
PROCESS ENGINEER	7.65	1	7.65
TEST ENGINEER	11.35	1	11.35
SUPERVISOR	8.55	2	17.10
TOTAL INDIRECT LABOR		28	$ 167.05
TOTAL PERSONNEL		128	$ 508.55

HOURLY COST

$$\frac{\text{TOTAL COST PER HOUR}}{\text{TOTAL DIRECT LABOR}} = \text{COST PER DIRECT LABOR HOUR}$$

$$\frac{\$508.55}{100} = \$5.09$$

UNIT COST

COST PER DIRECT LABOR HOUR x DIRECT LABOR STANDARD = UNIT COST

$ 5.09 x .667 HOURS = $ 3.40

U.S. CUSTOMS VALUATION CALCULATION

MEXICAN ASSEMBLY	$ 3.40 (PER BOARD)
ASSIST	
*U.S.MATERIAL	7.29
FOREIGN MATERIAL	5.96
SUPPLIES	.35
*U.S. PACKING	.05
EQUIPMENT AMORTIZATION	.15
TOTAL VALUE	$17.20
*LESS QUALIFYING MATERIAL	(7.29)
*LESS QUALIFYING PACKING	(.05)
DUTIABLE VALUE	$ 9.86

*Indicates items qualifying under Items 800 and 807.

CALCULATION OF U.S. DUTY

CLASSIFICATION: 676.5230 RATE: 4.3% (1985)

$ 9.86 x .043 = $ .42

UNIT COST ESTIMATE

ASSEMBLY	$ 3.40
§FREIGHT TO & FROM PENNSYLVANIA	.12
SUPPLIES	.35
§*INSTALLATION COSTS	.08
§U.S. DUTY	.42
§PACKING MATERIAL	.05
EQUIPMENT AMORTIZATION	.15
TOTAL COST	$ 4.57

*Estimate $15,000 amortized over six months

$\frac{\$\ 15{,}000}{180{,}000 \text{ units}} = \$0.08$

§Costs incurred by Assembly in Mexico.

POTENTIAL SAVINGS ANALYSIS

	U.S. COMPANIES			
	"A"	"B"	"C"	ELAMEX
DIRECT LABOR PER HOUR	$ 4.50	$ 8.00	$12.00	
FRINGES, WORKMEN'S COMP., UNEMPLOYMENT INS.	1.25	4.00	6.00	
FACTORY OVERHEAD	5.75	12.00	13.50	
TOTAL	$11.50	$24.00	$31.50	$ 5.09
*FREIGHT, DUTY, PACKING & INSTALLATION	-	-	-	1.00
TOTAL	$11.50	$24.00	$31.50	$ 6.09
	(6.09)	(6.09)	(6.09)	
△ SAVINGS/HOUR	5.41	17.91	25.41	
SAVINGS/YEAR (x2400) PER DL EMPLOYEE	13K	43K	61K	

TOTAL SAVINGS = (ANNUAL PRODUCTION) (STANDARD) (△ HOUR)
(360,000) x (.667 HRS) x (△)

A	B	C
$1,299,049	$4,300,549	$6,101,449

*Converted to hourly basis.

Senator **Bingaman**. Thank you very much. I'll have some questions here when we get a little further along. The final witness on this panel on the maquila situation is Neal Gonzalez, who is the executive secretary of the AFL–CIO here in New Mexico and a good friend of mine. We're glad you're here, Neal. Thank you.

Mr. **Gonzalez**. Since they've talked about management side, I'll talk about the workers.

Senator **Bingaman**. All right.

STATEMENT OF NEAL GONZALEZ, EXECUTIVE SECRETARY-TREASURER, NEW MEXICO STATE AFL–CIO

Mr. **Gonzalez**. On behalf of the trade union members that our State federation represents, I want to express our gratitude to you for conducting these meetings. They have an important bearing on the shape of the national economy, and since we know that the national economy is, in the last analysis, the sum of all its parts, what happens nationwide has a direct impact on the economy here in our State.

As you know, Senator, New Mexico's economy is not healthy. More than 5 years after the national economy hit the bottom of the recession, we in New Mexico are still bearing a heavy burden. The national unemployment rate has come down from double-digit levels to 6.3 percent. But the latest figures show that New Mexico's jobless rate is nearly half again as high, 9.2 percent. In Luna County, the situation is even worse—depression level unemployment of 15.4 percent.

It is against that rather grim background that the subcommittee has scheduled these hearings to consider whether there is any wisdom in establishing a cross-border port of entry at Columbus. You know, we do have a port of entry established here, but they're trying to improve it to bring in the twin plants.

I have served on the Economic Development Committee for the State, and one of the big topics was bringing in more port of entries so that we can try to encourage twin plants in those areas. In fact, I believe the State is now pushing for the Santa Theresa port of entry. Anyway, this encourages setting up of American-owned assembly plants on the Mexican side of the border, the so-called maquiladoras.

We've heard a lot of talk to the effect that such a move would help create jobs in alleged twin plants in Columbus and surrounding areas. Now, with unemployment in the border areas running in unacceptably high levels, there's a certain appeal to that proposal. Our brothers and sisters in Mexico would get jobs, we are told, and we would get jobs, too. The trouble, Senator, is that it hasn't happened that way, and it's not going to happen that way.

I know that the committee is being told by promoters in our neighborhood State of Texas that the twin plants have been economically advantageous. That the maquiladora process has meant more jobs in Juarez, and more jobs in El Paso. I submit that someone had to "cook the books" to come up with any figures supporting that conclusion.

Let me tell you what's really happening in the Texas border communities just across the Rio Grande from the mushrooming maquiladoras. Statewide, Texas has a 9.3 percent unemployment rate. In McAllen, at last count, it was 18 percent, nearly twice the statewide level, almost three times the national average, and second only to one labor market in Louisiana, in terms of severity of unemployment. In Laredo, the unemployment rate was 16.3 percent, according to the latest figures from the Bureau of Labor Statistics. In Brownsville, it was 13.8 percent. And in El Paso, unemployment was 10.2 percent of the work force.

You can appreciate, Senator, that these figures are depressing, as they grossly understate the problem. They don't include the people that the Labor Department refers to as discouraged workers, the ones who have stopped looking for jobs because there aren't any employment opportunities out there. And the statisitics don't include the people who are working at part-time, low-paying jobs, because they can't find full employment.

So the employment situation in the Texas border communities, according to official Federal Government officials, is far from encouraging. As I understand it, the question which the committee is exploring is to what extent have the maquiladoras contributed to this problem.

The committee has been told that one of the purposes of establishing the mechanism where the American plants could operate across the border was to establish twin plants, a plant on this side of the border for every maquiladora across the river. There are 865 plants along the United States-Mexican border, and where are the 865 twin plants in American cities and towns? They don't exist. Nor is there anything resembling it in the number of jobs. The maquiladoras employ 300,000 Mexican citizens. Where are the 300,000 jobs in U.S. cities and towns along the Rio Grande? They just aren't there.

The fact is, Senator, that in those few cases where twin plants actually exist, they clearly aren't identical twins. In Juarez, for example, American companies that took advantage of this program hired 80,000 of the most repressed Mexican workers they could find. But in El Paso, where there were, according to the latest count, 26,600 unemployed, these same companies threw a bone to the American workers by hiring only a dozen or so to handle warehousing of the products that came back into the United States.

The International Trade Commission recently prepared a report on the problem involved in the whole scheme. It made the point that the promise of job generation in border communities remains unfulfilled. That many of the American twins are located in foreign trade zones, which focus more on storage and distribution rather than on manufacturing.

The Commission made a point that should not be overlooked—that the foreign trade zones constitute just one more gift to industries whose profits seem to be their most important product. The ITC said that these trade zones are being used for the manipulation of merchandise in a way that delays payment of U.S. duties and provides cash-flow advantages to a company that ultimately sells its products in the U.S. market.

In addition—and I'm still quoting from the International Trade Commission's report to the Senate Finance Committee—in those instances where a company does do some final manufacturing on a product that enter these foreign trade zones, they're allowed to sell them in the domestic market with a "Made in the USA" label on them. I consider that a cruel hoax to foist on the American consumer. It makes a mockery of the those television commercials that tell the public that "Made in the USA" matters.

There are now nine of these foreign trade zones along the United States-Mexican border. The volume of merchandise that they handle skyrocketed from $10 million in 1976 to $1.3 billion in 1984, the last year for which the ITC had records. It is reasonable to assume that the volume has continued to go up, because American investments in the maquiladoras has been climbing steadily.

Ten years ago, Senator, there were only 300 plants just across the Mexican border, employing 80,000 workers. American firms have invested nearly $2 billion to expand their cross-border operations since then, nearly tripling the number of assembly plants, and more than doubling their work force.

It's not hard to understand why American business has found the maquiladoras so attractive. They lie just across the border, which means that they run away to Mexico instead of somewhere in the Pacific Rim countries. They can save millions of dollars in the cost of transporting their goods to the American market. Savings that go into the corporate pockets, because there is no difference between the retail price of goods made in this country and those assembled in the maquiladoras, or, indeed, in any of the other offshore operations of American companies.

Mexico provides a work force hungry for jobs; and it's interesting to note that the maquiladora work force comprises mostly women and young girls whose wages average somewhere between 30 and 75 cents an hour.

What's more, Mexico shelters American businessmen from some of the regulations that exist in this country. Unions are discouraged. Safety-net programs such as health, pension, or unemployment insurance are seldom found. Mexico has imposed no requirements that the assembly plants be safe and healthy places to work, and allows American companies to pollute the air, the land, and the water of their country.

The inescapable conclusion is that the government in Mexico City has this cozy arrangement with American companies, because it's good business. The maquiladoras shipped $9.8 billion worth of goods into the United States in 1985. That represented 55 percent of all American imports from Mexico that year. Is it any wonder, under those circumstances, that we have a $5.5 billion annual trade deficit with Mexico?

It's bad enough, Senator, that the Mexican Government has mounted a full court press to lure American firms into their country. It's unthinkable that the administration in Washington went one step further, openly aiding and abetting U.S. firms to close down assembly lines in this country, reopen them in Mexico, and in the process engage in the wholesale export of American jobs.

As an example, the Commerce Department spent $166,000 of the American taxpayers' dollars to mail out brochures to 120,000 American businessmen, inviting them to an exposition in Acapulco, the paradise of the jetsetters, where they could be wined and dined by Mexican businessmen and Government officials, and where they could be shown, in the Commerce Department's own words, how to "maximize profits by utilizing low-cost foreign labor." The invitation was addressed to the "entrepreneur, the financial visionary, the forward-thinking businessman." It didn't use the words "greedy" or "profit hungry," but it just might as well have, because the implications were clear enough.

As you know, Senator, when Congress got wind of this, it enacted legislation preventing the use of our hard-earned tax dollars on this scheme. But the show went on anyway. The Commerce Department turned the project over to a private public relations firm which charged each of the American businessmen $325 to come to the exposition, and which charged Mexican state governments and businessmen $1,500 each to set up exhibits.

When they got to Acapulco, here is what the U.S. businessmen were told—and this quote has been published in a number of American newspapers: "The bottom line is this. Your cost per Mexican worker is 69 cents an hour versus at least $9 in the States. That's a savings of $15,000 a year per worker."

The Commerce Department told Congress that the whole purpose of "Expo Maquila" was to impress American businessmen that they should bring their offshore operations back from Taiwan, South Korea, and other countries in the Pacific. But that's not what the businessmen were told in Acapulco. Clearly, they were told that there was more profit to be made by eliminating jobs in the United States and creating jobs in Mexico.

Let me make one point perfectly clear, Senator. We in the American labor movement are proud of the fact that we've been in the forefront of the battle to protect the rights of all workers, not just trade union members, not just American workers. Our record in fighting for fair play internationally is so well known that I don't have to belabor the issue.

In that spirit, we're concerned about improving the incomes and working conditions of Mexican workers. But we insist that investment by U.S. companies on the other side of the Rio Grande is not a solution to the economic problems facing Mexican workers. The simple fact is that the maquiladora plants do not substantially contribute to the economic and social development of the Mexican people, and the products are not for Mexican consumption. Clearly, someone benefits, but it's not the workers on either side of the border.

We also insist that the maquiladoras are a direct threat to the jobs of American workers who are directly displaced through these American investments, and to thousands more who are indirectly affected because they have to compete with the output of these operations.

Workers in the United States and Mexico deserve a better fate, and I hope that the Congress takes positive action to slay the maquiladora monster that every day devours our jobs, closes our plants, and adds to our trade deficit. Thank you, Senator.

Senator **Bingaman**. Thank you very much. Before we go on to some questions, let me add one additional thing to the record, and I guess we'll go on another 15 to 20 minutes with this panel before we start with the next. I have a memorandum dated June 12 from Andy Kissner, the executive director of the Greater Las Cruces

Economic Development Council, which is addressed to me, entitled "Maquila Impact on Dona Ana County, New Mexico." I'll just read it briefly so that the folks here can hear it, and then we'll make it part of the record.

> Within Dona Ana County there are four maquila-related companies directly employing 402 people. The four companies involved are Micro Switch, a division of Honeywell, Createc, Foamex Products, Inc., and Bacchus Industries.
>
> Micro Switch directly employs 300 people in Las Cruces and 100 people in El Paso. Foamex will actually go into operations this year, and employs 80 people. Createc packaging material employs 22 people. Referring to a study done by the U.S. Chamber of Commerce, 462 directly employed basic industry people represent:

Then he's got a series of items here about the number of people in the community, the amount of retail sales and the number of households.

> The 462 direct employees within manufacturing firms in Dona Ana County consume supplies which are produced locally and from both interstate and out-of-State sources. At this point, we have not identified the sources of the manufacturing inputs or tried to estimate the number of U.S. employees in these other facilities. However, it's safe to say that if the 800 series tariff categories were eliminated, at least 772 direct jobs in Dona Ana County would be lost.

We'll make that a part of the hearing record at this point.

[The memorandum referred to follows:]

GREATER LAS CRUCES ECONOMIC DEVELOPMENT COUNCIL

MEMORANDUM

DATE: JUNE 12, 1987
TO: SENATOR JEFF BINGAMAN
FROM: J. ANDY KISSNER, EXECUTIVE DIRECTOR
SUBJECT: MAQUILA IMPACT ON DONA ANA COUNTY, NEW MEXICO.

Within Dona Ana County, there are four Maquila related companies directly employing 402 people. The four companies involved are Micro Switch - A division of Honeywell, Createc, Foamex Products, Inc., and Bacchus Industries.

Micro Switch directly employs 300 people in Las Cruces and 100 people in El Paso. Foamex, who will go into operations this year, employs approximately 80 people. Craetec, a manufacturer of packaging material, employs 22 people. Referring to a study done by the U.S. Chamber of Commerce, 462 directly employed basic industry people represent:

- 1,508 additional people in the community,
- 310 new non-manufacturing jobs,
- $4,949,372 of increased retail sales,
- 471 new households,
- $3,680,304 additional bank deposits
- $9,762,076 increase in annual income within the community.

The 462 direct employees within manufacturing firms in Dona Ana County consume supplies, which are produced both locally and from both interstate and out-of-state sources. At this point, we have not identified the sources of the manufacturing inputs or tried to estimate the number of U.S. employees in these other facilities. However, it is safe to say that if the 800 Series Tariff Categories were eliminated, at least 772 direct jobs in Dona Ana County would be lost.

JAK:ng

Senator **Bingaman**. Let me try to summarize it, and then just get any of you who would like to comment. We've obviously had a strong difference of opinion as to the value of the maquila plants for the U.S. economy and U.S. workers, I guess the issue comes down, at least as I see it, to what you think the alternative is.

If you perceive it as Mr. Gonzalez described, with the alternative being retaining blue-collar manufacturing jobs in the United States, then I think, clearly, a case can be made—and he has made it strongly—that we need to do all possible to retain those jobs in the United States, and the advantage of the maquila program is questioned.

On the other hand, as I understand Mr. Dodson's and Mr. Ortiz' testimony—and I'm not sure about Mr. Dehesa's point of view, I think the same, though—your view is that those jobs would not be kept in this country; that they would either be lost to the Far East or somewhere far removed, or they would essentially be lost to U.S. firms and would be taken over by foreign production some way or another. And you would see that as the alternative to the maquila operations that are going forward.

I guess how you come out of that very basic assumption on what the alternaive is, determines where you come out on the end result. Is that a fair assessment, as you folks see it? Bobby.

Mr. **Ortiz**. If I could. I would just like to emphasize that I think there's not one of us here in this room that does not care about jobs; if nothing else, our own job. You've got to keep things in perspective. So we are all trying to create jobs. The question is how do we survive, and I think that's the most important question you raised earlier.

In our case, being in the apparel industry, we've been surviving ever since apparel became apparel, because it's so highly competitive. It's an entry-level job that the people in China have found a dexterity for. We also decided that we would like for them to buy airplanes, and TV's, and things like that. So they're exporting that function, because that's the one basic thing in life that can be exported, if nothing else.

What we're trying to do as a corporation here in El Paso is to secure the jobs that we do have left—and it's about 2,500 jobs. So it's not a small number, if you start looking at the demographics of those people.

What you said earlier today is, to me, the real answer long term. The short-term answer, by the way, is jobs today. But if you look at the demographics of why we've been selling in the Southwest and New Mexico—Las Cruces, El Paso, they might as well be in New Mexico, both of them, in many respects. The demographics say we have been selling to the not educated but illiterate labor force for many years.

We actually stole those jobs from the north, if we look at our own history, on what we do with apparel. And education—it is very sad to see people who are functionally illiterate, not only in English but in Spanish. Many of us speak Spanish, but we can't read it.

So you're asking, as a long-term solution, for us to get into the more skilled levels. How are we going to get there if we're not going to do what you were talking about, strengthen the school system?

I heard somebody say that management in other countries is working some extensively long hours. I think we've gotten a little bit fat, to be honest with you, and I think that when we're lean and mean, nobody can beat us. I think other people are doing things we have forgotten, and I think we all have to get to it and work harder. Both management and labor have to do that to find the openings, because without corporations there is no labor, and vice versa. It just won't work. That would be my opinion, sir.

Senator BINGAMAN. Yes, Neal.

Mr. GONZALEZ. Last night, I saw on TV—in fact, it made me boil—where there was an announcement by this group of Japanese—you brought up the question about the Japanese. I think we're going to get flooded with the Japanese coming into Mexico. It was Seiko watches. They're going to have Seiko Optics, and he said they were proud that they were going to create 300 jobs in Mexico and 30 jobs in El Paso. They asked them why they were coming into Mexico, and he said, "Cheap labor, that's the reason." This is what is really actually hurting.

Senator BINGAMAN. I think another issue which we discussed when we were in El Paso, before we came over here this noon, was the question that, at the present time, much of this production by Japanese firms in Mexico comes into the United States under the same kind of preferential treatment that production by U.S. firms in Mexico enjoy.

So I think there's a question that we need to have at least one thought about, as to whether we want to have the same kind of preferential tariff arrangements for foreign firms operating in Mexico for production for the U.S. market as we do for the U.S. firms.

Mr. DODSON. Let me make a comment. There's no preference for firms operating as maquilas in Mexico. Anybody who operates any place in the world operates under the same terms. There's nothing special. That's what I tried to say; 807 applies worldwide.

Senator BINGAMAN. As I understand we permit, under 807, materials coming out of the United States and going into assembly in another country, can then return to the United States duty free?

Mr. DODSON. That's right.

Senator BINGAMAN. What you're saying is that, in your view, this should be the case even if that assembly in the Third World country is done by a non-U.S. firm?

Mr. DODSON. That's right. See, right now you can export that material to Hong Kong, Korea, Japan, Germany, England. It makes no difference. Now, there are probably some countries, perhaps Russia, that would not qualify, but there's nothing special on the maquilas. The maquilas operate under the same U.S. tariff regulation that applies to every trading partner anyplace in the world. Nothing special, absolutely nothing special.

Senator BINGAMAN. Let me ask on the extent of the production sharing that occurs in the maquila plants. I gather from your testimony earlier that the United States piece of production is substantially greater in the case of production in maquila plants than it is——

Mr. DODSON. Yes, in Mexico.

Senator **BINGAMAN** [continuing]. Yes, in Mexico—than it is in production that occurs under 807 in the Far East.

Mr. **DODSON**. That's right. The numbers I was referring to were, I believe, in 1983, out of $40 billion coming out of Japan, half of 1 percent of those items were U.S. material. Now, in the same year, out of Mexico, about $2 billion, and half of that was American material.

Senator **BINGAMAN**. Now, if you produce a product with substantially less U.S. material in it, then the advantage that you have of bringing it back into the United States duty free is reduced?

Mr. **DODSON**. Absolutely. There's another angle to it, also, and that is under GSP. If you, for example, are in Hong Kong, and you're manufacturing something under GSP—and that's General Systems of Preference. If you use Hong Kong material, you can qualify for GSP, and it enters the United States duty free.

Now, if you make a similar product that came from Mexico under GSP, but instead of Mexican material, you use American material, then you're not going to qualify for GSP. So, actually, by using American material, you're being placed at a disadvantage.

Senator **BINGAMAN**. Yes, Doctor.

Mr. **DEHESA**. I would like to make a comment on these two previous issues. First of all, addressing this immediate one. They do not qualify because they have to have 30-percent value added in Mexico, at least to qualify within GSP.

Mr. **DODSON**. Thirty-five.

Mr. **DEHESA**. So there is a difference on what can be imported in some cases. I would like to go back to this issue of job creation, of job destruction arising from the Mexican maquila.

In my opinion, the United States is slowly and, in a way, painfully adjusting to being an active part of the world economy. See, the United States traditionally was a closed economy, and it entails costs to become a substantial part of the world economy, a very open economy.

In a market economy, you have to compete. Those are the very rules of the game, to my mind. I think that there is no question that firms will go where they minimize costs. We have seen that all sorts of things have been abolished when one tries to prevent that sort of thing to happen.

I think the issues that Mr. Gonzalez raised are important issues. One has to address why there is relatively high unemployment in New Mexico, but certainly, I think it has little to do with the maquila. One has to look at the overall U.S. picture to see that there was a tremendous job creation in the recent years. I think that having Mexico as a partner is a way of creating new jobs.

I mentioned at the beginning of my testimony that the flows of trade between the two countries have expanded, really, at a spectacular rate. It's a normal situation that Mexico reduces its imports from the United States; that Mexico has traditionally spent more on the United States than it has received income from the United States. That's why we have a trade deficit. That's why we have a debt problem. It wouldn't have been the case if we were living in our own world.

So the world picture—I think the relationship between the two countries has led to job creation and not to job destruction. I think the unemployment problems within Mexico and within the United States have to be addressed, but there are fruitful ways of dealing with it, and there are negative ways of dealing with it. I think suppressing the maquila would be a net cost with no benefits on that accounting.

Senator BINGAMAN. Let me just finish with this question, to bring this right down to home here in Las Cruces and Dona Ana County. What can be done locally to benefit from the fact that this economic activity is occurring so nearby?

New Mexico has not been an active part in any of this economic activity along the border. Are there opportunities for bringing in supplier firms to maquila plants, or are there benefits that can be pointed out to U.S. firms of increasing their employment on the U.S. side of the border, in this region, that have not been adequately exploited or pursued?

Do any of you have thoughts on that? Because, clearly, one of the things that the firms that are involved in the maquila operations take great pride in is the fact that they create jobs on the U.S. side of the border as well. We have not seen that in this side of our State to any great extent.

Mr. DODSON. Sir, that is happening in El Paso. Out of my companies, two of them are establishing manufacturing operations in El Paso to support their Juarez operations.

Senator BINGAMAN. These are two suppliers?

Mr. DODSON. No, these are two customers that I do assembly work for in Mexico. They're establishing their own plants in El Paso to make components to be assembled on the other side.

People like General Motors have a lot of suppliers who are moving to El Paso to make materials, equipment, spare parts, and this type of thing. This is happening, and it's happening at a faster rate.

However, El Paso is picked because of the proximity to Juarez, just as Juarez is picked because it's easy to move material, and so forth, too. For example, it's more difficult to operate in Chihuahua. It's only 200 miles down the road. It's more difficult to support an operation in Juarez from Las Cruces. It doesn't mean that it will be zero, but it is more difficult. It would be easier to support in Columbus and Palomas, et cetera.

Any support—if there's an opening in Anapra, there will be more on the New Mexico side, but there also will be a lot of support in El Paso for these operations, because it's just looking across the border at Juarez. They don't really care that they're actually directly opposite Texas or New Mexico.

The area, the greater El Paso-Dona Ana County area, is going to profit from it, but it's a matter—just like it is of profits—it's a matter of convenience, it's a matter of location; it a matter of where people are able to help them. So it's coming, and it's helping, and I think it's snowballing. I think it's getting faster.

Senator BINGAMAN. Does anybody have a comment?

Mr. GONZALEZ. Senator, I don't see it that way. If you take a plant, whether you take it out of the Texas area, or you take it out of New Mexico, or you take it out of Michigan, it goes to Mexico. What jobs is it creating if it creates 100,000 jobs in Mexico and 2,000 jobs here? What is it creating? You've lost those plants. This is the problem we have in this Nation. It's the plants that are moving out to Mexico—the jobs that have been here—and it's because of cheap labor.

The only solution I could ever see happen is when the Mexican people start getting a decent wage. Their wage now is $3.90, minimum wage, per day, which some of these companies can pay. The day that there's a competitive wage, you won't see them go to Korea or to Mexico or anywhere else. But we're giving them a break by bringing those goods in. So we're giving them all the breaks there are. We're actually helping create this problem. That's how I personally feel.

Senator **Bingaman**. Yes, Mr. Ortiz.

Mr. **Ortiz**. If you are looking at opportunity for this area, develop employment in this area, one of the things I would be looking at is—and I hate to be dead right. Some of the issues that he's bringing up are, in my opinion, dead-right issues—damned if you do, and damned if you don't. If we could compete with the Orient, because the Orient is not going to go away.

If we can get the jobs in Pennsylvania to stay in Pennsylvania. Where some jobs are created here in Las Cruces and some jobs go to Mexico, that's better than zero jobs in the United States. And it's maintaining a competitiveness of the world economy that we're all going to have to belong to.

So, again, we're competing against the Orient. The Orient is not going to go away. And one of the things that we're forgetting, which is the thing that I guess my wife has taught me the most, is that the consumer is the one that drives this force. The consumer is the one that decides that a pound of bacon costs too much, or these slacks cost too much. That is what we're facing, and it's not additional profits. It's competitiveness, and I think that's what the topic of the discussion is, how to compete.

I can tell you that through 807 we have grabbed, like I said before, 100-percent Oriental product, bought U.S. piece goods, and supported the guy all the way down to the farmer. We've created jobs in the United States by doing so, in large volume, through the 807 benefits.

So does Dona Ana County have an opportunity? The answer is yes. Can it be smart about how it wants to develop it and which jobs it wants to take away from the Orient? The answer is yes. But it's not U.S. jobs that we're losing. We may take some jobs away from the other fellow, and we can, with our ingenuity.

Senator **Bingaman**. Thank you very much. Why don't we take about a 5-minute break, and then we'll have the second panel. Thank you.

[A brief recess was taken.]

Senator **Bingaman**. I appreciate you all staying. We're already introduced the second panel, so why don't we go ahead. Ray, why don't you go first, and then we'll just go down the line.

STATEMENT OF LOUIS R. SADLER, DIRECTOR, JOINT BORDER RESEARCH INSTITUTE, NEW MEXICO STATE UNIVERSITY, LAS CRUCES

Mr. **Sadler**. Thank you, Senator Bingaman, I'm pleased to have the opportunity to appear before the Subcommittee on Economic Resources and Competitiveness of the Joint Economic Committee of the U.S. Congress. The topic of your hearing, United States-Mexico Economic Relations—Economic Issues Along the Border, is one which is pertinent not only along the entire 1,951-mile boundary, but particularly along the 179.5-mile New Mexico-Chihuahua-Sonora border.

You are to be congratulated for addressing this most important and, in my opinion, neglected topic.

The question of United States-Mexican relationships, both political and economic, is one which a dozen years ago would not have been the subject of a congressional hearing. For more than a half a century, since the mid-1920's, the relationship between the United States and Mexico was generally tolerable and, frankly, on the U.S. side, we rather neglected our relationship with Mexico. As you know, this has finally changed during the past decade.

Mexico's enormous population growth, her acquisitions of substantial oil reserves in the early 1970's, and their importance following the Yom Kippur War of October 1973, the OPEC embargo, and the enormous increase in the price of world crude oil, have all focused attention on Mexico. Political instability has increased in Mexico during the past two decades, particularly beginning with the 1968 Mexico City riots.

More recently, inflation and problems involving the decline of the value of the peso over the past decade from 12.5 to 1, as late as February 1976, to the present 1,300 pesos to the dollar accelerated. Inflation today in Mexico is at a rate of approximately 120 percent. There are significant problems involving the production of drugs and their importation into the United States via Mexico, and the enormous problem of undocumented workers coming into the United States over the past two decades, beginning in 1965, have all focused attention on our neighbor to the south.

Unfortunately, we in the United States have much to do in terms of catching up, vis-a-vis Mexico. For the past 50 years, Mexico, for most Americans, was simply a place to vacation, whether in Acapulco, Cozumel, Cancun, Ixtapa, Puerto Vallarta, or Cuernavaca. Mexico was really not a subject to be discussed seriously in terms of economic or foreign policy, particularly compared with United States-Soviet, Western Europe, or Asian affairs. This has finally changed.

Recent problems in terms of discussion regarding the United States-Mexican relationship has been what I can only describe as Mexico bashing. For the past few years, it has become a common practice in some quarters in Washington to engage in this activity. In my opinion, a realistic appraisal of our relationship has been neglected among some Washington politicians. I hasten to add, Senator Bingaman, that you have never indulged in this activity.

Senator **Bingaman**. I appreciate that disclaimer.

Mr. **Sadler**. New Mexico, as you know, is the exception to this kind of activity. We, as a State, have a very special relationship with Mexico as a nation, and with the State of Chihuahua, specifically. The name of our State explains our relationship. New Mexico is the most Hispanic of all the States of the Union. This, coupled with our ties of language and family, denotes this special relationship.

Ironically, very little in the economic arena has characterized New Mexico's relationship with Mexico, and it is in this arena that I would like to direct the thrust of my remarks.

Despite New Mexico's inherent advantages, it has, however, been deterred in the past by basic lack of infrastructure. Although New Mexico has had for some years a 24-hour port of entry at Columbus, NM, and an 8-hour port of duty of entry at Antelope Wells, the lack of an effective roadnet in the past linking these two ports and the future Dona Ana County port of entry at Santa Teresa have created problems in developing the New Mexico-Chihuahua border.

During the past 5 years, a number of developments, however, have finally put in place the basic infrastructure necessary for developing business relationships between New Mexico and Mexico. They include, one, the 72-mile road from Columbus to southern Dona Ana County, a gravel all-weather road linking New Mexico's current 24-hour port with southern Dona Ana County. This, of course, is under construction at the present time. This opens up 72 miles of the 180-mile boundary, which has heretofore been sealed off.

Second, international landing rights at the Las Cruces International Crawford Airport, which affords southern New Mexico the opportunity to develop effective air ties with the capability of clearing customs, not only for passengers but for freight flights to and from Chihuahua and New Mexico. This opportunity has not yet been fully exploited, but, hopefully, will be in the not too distant future.

Third, the Santa Teresa Airport, a Dona Ana County airport located adjacent to the Santa Teresa Country Club, provides yet another international landing rights airport and also affords the opportunity to clear customs between New Mexico, Mexico, and Chihuahua.

Fourth and most importantly, the expectation that before the end of 1987, Dona Ana County, the seventh most populous county along the entire United States-Mexican border, will finally, after half a century of struggle, have its own port of entry. It will begin first as a cattle crossing and later—given the plans that the Santa Teresa Corporation and various private Mexican business interests have—will also be the location of large maquiladoras or in-bond plants. This facility has the potential of being the largest maquila industrial park on either side of the border in the not too distant future.

In summary, given road building, new ports of entry, and international landing rights, New Mexico will finally be in a position to utilize its strength in terms of both language, familial ties, and the cordial relationships which have always characterized New Mexico's relation with Mexico.

May I make one final bit of, I suppose, special pleading for, particularly, my colleagues here at the university? My colleague, Jim Peach, who I think is here, who is an economist—Jim and his colleagues in the department of economics have stated, and I think quite accurately, that we have a real problem with data on this border. It's not something that is merely inconvenient.

Those of us who are university types, research types, if we really are to be able to give our business community and to give the Congress the kind of information they need, there are some very simple low-cost kinds of things that can be done, and I would be pleased to provide that to your office if it's of interest.

Senator BINGAMAN. That sure would be. Thank you very much.

Instead of asking questions, why don't we go right on, and then we'll come back with some questions. Brent, why don't you go ahead.

STATEMENT OF G. BRENT POIRIER, ATTORNEY, LAS CRUCES, NM

Mr. POIRIER. Senator Bingaman, thank you. I have tried in my prepared statement to present a broad-based view, some of which deals with legal issues, and some of which really deals with practical, grassroots, local initiatives that could be taken. So not all of my comments are intended to be directed toward what would necessarily be useful for legislation for you, but, hopefully, useful in showing you the directions that some people are going here in New Mexico, and some background information.

I practice international trade and investment law, domestic business law, and immigration law as well. I'm bringing in elements of all of that in my remarks. One of the basic things that I would point out is that the attitude of Americans toward Mexico and the American economy is an important aspect of the issue that this congressional hearing is addressing.

I'm reminded of a story of two men in a boat; one bailing furiously to keep the boat from capsizing, and the other relaxing and looking at the scenery. The man bailing said, "Why aren't you helping?" and he said, "Why should I worry, the hole is in your end of the boat."

I think that, in looking at what is best for the American economy, we have to recognize that we cannot separate what goes on in Mexico from what goes on here. President Reagan challenged Mr. Gorbachev to tear down the Berlin wall today. I think that, in some peoples' attitudes, they would like to separate by a wall, in some way, the economies of Mexico and the United States. I don't think it's a realistic, much less humane approach.

The next thing I would like to address is, you asked the question, what can be done in Dona Ana County? There are a number of— well, the first thing, I think, is that, in Dona Ana County, there are not very many people skilled in international trade.

Fortunately, the people we have in Government office, such as in the Department of Agriculture, are not only skilled in the mechanics of international trade, but they're good bridges. They're not only bilingual, but they understand that they have to deal with two cultures, two systems of thinking and negotiation. And they're very good bridges.

We need to develop in our universities people who are bridges between these cultures, and I think it's true that this is a neglected area in our curriculum. That Mexico not simply be an area of academic study, but that students be really primed for working in trade with Mexico. I have also suggested that the students be given real-world experience for course credit with American businesses or Mexican businesses involved in international trade. I don't think that is going on at this university in the international trade, the international business curriculum.

The Chamber of Commerce of Las Cruces, I called it last year and asked for the phone number of the Chamber in Juarez, and the person said they didn't have it. That is indicative of the kind of need and the areas where initiatives can be taken. Through a cooperative effort of the chamber, the International Good Neighbor Council, and the Jaycees, we are making closer links with the Juarez and Chihuahua City communities.

Now, as to the—I have also suggested that, just as some States—I'm jumping ahead a few pages. Just as several States in the central part of the country, and also in the south, have banded together and formed something called the Mid-South Trade Council, which promotes international trade for all of those States—if they have found a way to reconcile their competitive interest for international trade and to house it in one office, perhaps that could be applied internationally.

David Hinkle, who was our international trade representative in our State government here, said that for New Mexico to establish an international trade office overseas would be well into the hundreds of thousands of dollars. But perhaps that could be done jointly with another State, at least as an initial way of breaking in. And in Mexico, we really do need to get into Mexico City, because Mexico City is so highly centralized.

Now, as to the legal relationship. I was informed by the commercial attaché at our embassy in Mexico that the reason that the United States and Mexico do not have a Treaty of Friendship, Commerce, and Navigation is because Mexico renounced it in 1950. Even in the absence of that, I understand that there are—well, I know that there is an initiative toward an executive agreement for a bilateral consultation framework on trade and investment issues between the United States and Mexico.

My impression is that that is at the level of policy, and that at this time would be negotiation and not arbitration of issues, and advance warning of legislation that would impact on Mexico. This, as well as Mexico's accession to the GATT, is a hopeful sign for economic cooperation.

One observation I would have about this area of the Southwest is that there is not much awareness of what legal framework already exists. It's simply not being put to use. As you know, the Senate last year gave its consent to ratification of the Inter-American Convention on International Commercial Arbitration, which the President had already signed. That now means that there are two conventions for dispute resolution of private international trade disputes between the United States and Mexico.

Actually, between the United States and about 80 countries, but that is an existing legal relationship we have with Mexico. And it is rarely used. In this State—well to my knowledge, I don't know of anyone who is using it. I don't know of companies who are using arbitration clauses. And that's the only way for the United States and Mexico to make an enforceable agreement, because there's no bilateral treaty for enforcement of judicial decisions. It's done on the basis of comity only.

I have talked with law firms in Juarez and in El Paso, and they're interested in utilizing this framework, because there's a lot of money and a lot of goods crossing this border. I feel there would be a lot more if these business people had the realization that there is legal protection for their investment, legal protection for their sales. This has to filter down into the business community. My own impression is that this could be done through the chambers of commerce, recommending, suggesting to business people that they put arbitration clauses in their contracts when they have written contracts.

Most of the trade that is going on in this border area is done on a handshake basis. People are going in without legal protection. They are not using legal contracts. They are not using letters of credit, and they're not using arbitration. So I'm suggesting that we follow the example that the San Diego office of the American Arbitration Association is setting.

Apparently, Mexico is most comfortable with the use of the UNCITRAL arbitration rules, which provide for two nonneutral arbitrators, a Mexican and a foreigner, and then the third arbitrator is neutral. The problem has been agreeing upon who are neutral arbitrators in the border area, rather than bringing someone in from Canada or Panama, or somewhere else.

I have not talked to those people in a few months. I expect that there is progress on that. I think that this is something that we could do here, as well as strengthen this legal framework, because relations between nations, in my opinion, are not based primarily on friendship. They're based primarily on law, and the friendship can follow. The strengthening of this legal relationship through increasing the use of arbitration, I think, would have a significant, maybe even dramatic, impact on the increase of trade and commerce across this border.

My own hope and vision for the future is that the trade that is going on now ultimately will, in I don't know how distant a future, result in a kind of common market between the United States and Mexico; and for that matter, Canada.

I know that the Common Market in Europe, which is, of course, a tremendously powerful force, began with an agreement on coal and steel. I was reminded of that when I was at the border fence opening last year. Ours also began humbly, with some cattle crossing, but I'm hopeful that through cooperation the United States and Mexico can establish greater bonds.

[The prepared statement of Mr. Poirier follows:]

PREPARED STATEMENT OF G. BRENT POIRIER

Senator Jeff Bingaman, Chair
Subcommittee on Economic Resources and Competitiveness
Joint Economic Committee
United States Congress

Dear Senator Bingaman, and other distinguished members of the Committee:

The following is the text of my testimony before you at the hearing to be held today at New Mexico State University, in Las Cruces.

My name is Brent Poirier, and I am a sole practicioner in Las Cruces. I have a general civil practice, emphasizing domestic and international business law, and immigration law. I am active in local, state, and federal organizations that encourage international trade transactions between foreign countries and New Mexico, and that encourage foreign investment in the New Mexico economy. I studied international law in Austria, and interned in the legal offices of UNIDO, the U.N. Industrial Development Organization, in Vienna. I am a co-author of a forthcoming book being jointly published by the West Lawbook Publishing Company in the United States and Kluwer Legal Publishers in the Netherlands, entitled Doing Business in North America; I authored the chapter on foreign investment in New Mexico.

I am here today as an individual offering my own perspective, and not as a representative of anyone else. My remarks are not necessarily intended to offer suggestions that can be directly translated into legislation. However, as you have demonstrated through your support of programs such as HealthNet, you are able to benefit the people of New Mexico otherwise than solely through legislation.

1. COORDINATION

There are existing underutilized resources in New Mexico that, if identified and coordinated, can help to make us more competitive in world markets. These resources include government agencies, knowledgeable people, and community organizations with an international perpsective.

a) The Office of the International Trade Administration in Albuquerque recently lost the office head, a former foreign service officer, and he will not be replaced. His able secretary, supported by the Dallas I.T.A. office, is working to the best of her ability to fill the gap. However, there is very little outreach, and most potential exporters in New Mexico (and some current ones) do not know of the existence of that office and the abundant resources available through its databases and its foreign promotion services. The outreach efforts of this office should be increased, its budget enhanced, and its community education efforts encouraged and more closely coordinated with state and local trade promotion agencies.

b) There are many people who reside in New Mexico who have expertise in dealing with various foreign countries. These include retired foreign service officers, as well as university professors, foreign students, naturalized citizens from abroad, international protocol consultants, and others. These peoples' voices are not heard often enough. The resources in our state should be identified and utilized. From time-to-time state and local groups go on trade missions, or meet with foreign trade representatives who come to New Mexico. I have observed that when these foreign guests are met, we New Mexicans frequently do not know the proper title to greet them with, do not know how to say hello in the foreign tongue, do not know what gifts are appropriate, and do not know the current political and economic situation in that country, to be able to knowledgeably deal with them. All of this information is available in New Mexico. Every trade mission headed abroad, and every local or state body that intends to meet with foreign visitors here, should receive a thorough briefing ahead of time. If we are going to engage in international business, we should do it properly.

c) There are a number of service organizations in New Mexico that have counterparts in Mexico. These include not only the Rotary and the Lions Clubs, but also the International Good Neighbor Council, the Chamber of Commerce, Partners for the Americas, and the like. Some such organizations (the Jaycees being a good example) already have excellent links with commercial interests in Mexico; some other organizations have not yet begun. Last year I was surprised to learn that the Las Cruces Chamber of Commerce did not even have the telephone number of the Juarez Chamber. An initiative in that area is underway at present, and with the assistance of the International Good Neighbor Council, hopefully this situation will change, and the economic ties between these cities be strengthened. These grass-roots organizations, whether economically oriented or good will organizations, can have an impact on the relationship between the USA and Mexico, and should be encouraged to increase their efforts and to work together.

d) Foreign buyers interested in American goods and services often do not know how to locate them. A compilation of the goods and services available in New Mexico should be made available and advertised.

THE ROLE OF THE UNIVERSITIES

a) As you know, the New Mexico Business Forum is an excellent annual program that brings together government and business leaders. I would suggest that the deans of each college and university campus in the state select one or two top business students, and send them as student delegates to the Forum each year. Their names could be listed in the program guide, and they could be briefly introduced during each year's program. Such an initiative would not only be a stimulus to excellence for the students, but would also give them exposure to the business leaders in the State.

b) The colleges should arrange for an increasing number of New Mexico students to work for New Mexico businesses for course credit. Special efforts should be made for students studying international business to be linked up with New Mexico businesses involved in international trade. The exporters can provide real-world experience to the students, and the students can do market surveys, provide background information from government, library and faculty sources, and suggest improvements such as increased use of government promotional programs, letters of credit, and other data acquired during their academic programs. The companies would benefit from the knowledge the students provide directly to them, and would provide a benefit to New Mexico by increasing the knowledge pool in the New Mexico labor force.

c) International business students could be trained in their programs to work with specific trade regions of the world, and arrange their curricula so that the languages they study, their history courses, and the like, all prepare them to help US businesses deal more effectively with such regions as Latin America, the Orient, the Arab world, and the like. Grants and guaranteed loans for such students would be an incentive for them to study in these fields. Being so close to the border, it seems natural to expect that summer positions for New Mexico students could be arranged in Juarez or Chihuahua City. When these students graduate they will be much better prepared to contribute to the business community.

INCENTIVES TO EXCELLENCE

I have already referred to stimulating students to excel through recognition in important business forums. Likewise, businesses involved in international trade could be encouraged to excel through recognition programs. For example, at the annual meeting of New Mexico First an Exporters' Award could be awarded to the business that made the best new entry into foreign trade, or otherwise demonstrated excellence in providing services, in product quality, in ethical conduct, in the creation of new jobs, and the like. We cannot be internationally competitive unless the individuals and businesses that represent us to the world become renowned for their excellence.

OUR LEGAL RELATIONSHIP WITH MEXICO

Since 1950 there has not been in existence a treaty of Friendship, Commerce and Navigation between the USA and Mexico. A step forward in trade relations in the form of an executive agreement is being currently negotiated. When concluded, this would result in a framework for bilateral consultations to resolve trade and investment disputes. This is a hopeful sign, as is Mexico's accession to the GATT last year.

In addition to these policy-level dispute resolution mechanisms, there is already in existence another method for resolving private trade and investment disputes. The USA and Mexico have for decades both been parties to the United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards, and yet international commercial arbitration is infrequently utilized in the border region; most American companies simply do business with no legal protection planning. I conducted an informal survey of some major international law departments in El Paso and Juarez law firms, and none I polled knew of the use of arbitration in any significant measure in their cities. This is a particularly important tool for increasing US-Mexico border trade and investment, due to the absence of a bilateral agreement for recognition and enforcement of judicial decisions, which are currently dealt with on the basis of comity in US and Mexican courts. However, the federal implementing legislation of both countries provides for recognition and enforcement of arbitral awards rendered in either country. Both countries are parties not only to the above-mentioned United Nations Convention, but also to the Inter-American Convention on International Commercial Arbitration. If American and Mexican traders and investors know that their goods and their money are protected not only by good-will but by a legal framework, commerce will increase.

For this reason, I suggest that business organizations such as the US and Mexican Chambers of Commerce encourage businesses to include arbitration clauses in their contracts, and to submit existing international business disputes to arbitration. I also suggest that an international arbitration center be established in this area, after thorough consultation with the Mexican and American business communities. The San Diego office of the American Arbitration Association has been negotiating with its counterpart in Tijuana, to establish a cadre of neutral arbitrators in that border region that will resolve trade disputes using the UNCITRAL arbitration rules. Under those rules, disputes would be referred to a panel composed of a Mexican, an American, and a neutral arbitrator. In New Mexico, such a dispute resolution center could also provide conciliation and mediation services, methods favored by Oriental business interests as well.

As you well know, the United States Government recently ratified the United Nations Convention on Contracts for the International Sale of Goods. Some of the principal drafters of the document were Mexican practicioners, who are now engaged in attempting to introduce the Convention into the Mexican equivalent of the Foreign Relations Committee, and who are hopeful that before long Mexico will also be a party to the Convention. An education program is necessary for this new law to filter into the business community of New Mexico, which will replace Article II of the Uniform Commercial Code for international sales transactions between a number of countries (not including Mexico) starting January 1, 1988.

Given the amount of trade that exists between these two countries, and the lengthy common border, I suggest that the concept of a North American common market, at least a rudimentary one, be given serious study and consideration. The European Common Market began with an agreement on coal and steel. In international matters, the benefit of the part is best attained by the benefit of the whole, and since our own economic interests are linked to the success of the Mexican economy, Mexico's economic recovery is not only desirable, but essential to the well-being of the American economy.

FEDERAL OFFICIALS

Next fall the 10 governors of the border states from both the United States and from Mexico will be hosted by Governor Garrey Carruthers here in Las Cruces. This is an exciting prospect, and has the potential to lead to an increase of cross-border commerce. May I suggest that to the extent not already in progress, meetings between American and Mexican federal officials representing border states could also benefit both countries, and set an example for New Mexico state and local officials to increase their contact with their Mexican counterparts.

STATE TRADE OFFICES

Establishment of state foreign trade promotion offices abroad is a costly venture. However, some states have joined together and established domestic regional trade promotion offices, such as The Mid-South Trade Council (see p. 8 of the Bureau of National Affairs' publication State Export Programs: A Resource Guide). I see no reason this concept could not be used abroad. For example, if New Mexico and Arizona were to join forces, they could establish an office in Mexico City, which would be otherwise prohibitively costly for either one of them.

New Mexico has skilled state international trade promotion officials, both in the Department of Economic Development and in the Department of Agriculture. However, their task is too large for their staff, which limits the effect they might otherwise have.

Most of the US-Mexico trade I am aware of in this region does not utilize many of the formalities common in trade with other countries. For example, letters of credit are not commonly utilized by New Mexico exporters selling to Mexico. Often, the Mexican buyer pays cash up front in US currency, and takes title to the goods on the US side of the border. In agricultural sales, staff members of the New Mexico Department of Agriculture act as trusted brokers, helping buyer and seller to negotiate the deal and get what they bargained for. Public education programs on international trade, and increased foreign trade staff, can increase our foreign sales.

BANKS

One or two banks in Albuquerque will handle documentary credits for exporters, although export financing is uncommon in this state. Regrettably, no bank in the southern part of the state has an international department, leaving exporters in this area with no choice but to take their business to El Paso banks. I feel that unless this changes, by the time banks in this part of New Mexico get into the game and attain the skill level of the Texas banks, it will be too late to attract the business, as the banking relationships with Texas banks will already have been established. This is an unnecessary loss to the New Mexico economy.

COUNTERTRADE

Mexico has an organization known as the Association of Importers and Exporters. The benefit of linking both together, is that when a Mexican importer is contacted by a foreign seller, the Association can negotiate with the foreign business to locate a foreign buyer for other Mexican goods. No comparable organization exists in the USA. I understand that there is a Congressional proposal to establish an Office of Countertrade in the Department of Commerce, which I would welcome. I feel that unless the United

States approaches trade in a manner to facilitate imports as well as exports, our export promotion will not be as successful as it could be.

MAQUILAS

I am a reluctant supporter of the maquila program; reluctant, because the program depends upon a cheap labor force, which creates the prospect of exploitation of the Mexican laborers. Nevertheless, I feel that the US Tariff Schedule should remain unchanged, to permit in-bond assembly procedures to continue. I do not think that in a world where American manufacturers must compete with foreign manufacturers who utilize inexpensive labor, that it would be realistic to require that our products be assembled by American workers. The higher-priced American products would probably lose domestic and international market share, and ultimately most of these US manufacturing jobs would be lost anyway. Secondly, the benefits to Mexico are essential to that economy at present; the maquila program enables Mexico to make payments on its American debt, for example. As I have previously stated, the US economy cannot survive if the Mexican economy fails. However, the wages paid to maquila workers, with a ceiling set by Mexican law, are low by Mexican as well as by American standards. My understanding is that most maquila operators are paying their workers the maximum permitted by Mexican law.

I welcome the plans proposed by the Santa Teresa development, which bode well for New Mexico economic development, and which are a step forward in the humane treatment of foreign laborers. For example, worker housing would be provided in the industrial park, and if a worker continued for a period of time, he or she would develop home equity. What I am saying is that as American companies have discovered in their treatment of American workers, treating people with dignity and making them happy and safe in their work environment is also the best way to increase productivity and profits; this philosophy is no less applicable in transnational manufacturing. So long as American maquila operators seek to improve the lot of their Mexican workers, I think this program should continue.

TRUCKING

For some time there has been an effort to officially waive US Department of Transportation regulations for Mexican trucks headed for US destinations further into the interior of this country (such as Las Cruces). I feel obligated to go out of step with my colleagues in the international trade bar, and state that I am opposed to this initiative, solely based on safety considerations. I recently represented a widow whose husband was killed on the highway by an American truck, which has reinforced my views on this issue. As evidenced by recent articles in Newsweek and Reader's Digest, as well as by a 60 Minutes segment, the American trucks that are bound by DOT regulations are making our highways dangerous enough. Formally permitting trucks that we know up front do not meet safety standards is, I feel, irresponsible. If non-critical matters were involved in these regulations, I would not object, but that is not my impression of the nature of these regulations. I am a wholehearted supporter of international trade - but not at the cost of human life and limb. Unless these concerns are dealt with, those trucks should not have access to our highways. And, simply requiring insurance commensurate with ICC regulations is a rather callous approach.

CONCLUSION

I view the US-Mexican border as a kind of earthquake fault zone. To my knowledge, this is the only common border between a first world and a third world country. It seems to me to be the most graphic example of economic disparity of any border in the world, and tensions are bound to develop, and ultimately be unleashed. It is, therefore, an area that deserves special development efforts, as well as the most careful attention. I have asked Americans with expertise in Mexican affairs whether the communists in Mexico have enough of a foothold to radicalize the population of that country, and they have said no. I am not convinced. I recently attended a conference in El Paso that was sponsored in part by the Houston Chapter of the Revolutionary Communist Party, that specifically dealt with US-Mexican economic relations. Not surprisingly, the United States was depicted as the villain, and as the primary cause of Mexico's economic woes. Although the excesses presented were sometimes so exaggerated as to discredit the speakers from the start, the poverty and attendant misery in Mexico in my opinion create fertile ground for such ideas to take hold in the future, and to exacerbate border problems.

Americans doing business with Mexico, whether as traders, investors, maquila operators, and the like, should be aware that their conduct, their sense of fairness, and their courtesy will directly impact on Mexican public opinion of Norteamericanos, and will either contribute to the strengthening or to the destabilization of the border region.

Thank you for the opportunity to address you, and I hope that some of my remarks will be of service to you. I wish you success in dealing with this very complex and very important subject.

Brent Poirier

G. Brent Poirier

Senator BINGAMAN. Thank you very much. I appreciate that. Mr. Gerald Thomas needs no introduction around here. He's very experienced in these matters, as well as a great many others, and we're honored to have you here to testify.

STATEMENT OF GERALD W. THOMAS, PRESIDENT EMERITUS, NEW MEXICO STATE UNIVERSITY, LAS CRUCES

Mr. THOMAS. Thank you very much, Senator Bingaman. As you know, I have had a long and continuing interest in the improvement of the human condition in all countries of the world. This interest has taken me to 50 or 60 countries, mostly in work related to food production and natural resources. As a result of these contacts and of my work in the international arena, I remain convinced that we are neglecting this hemisphere in all our international program activities. That includes the world bank activities, and any others that you can mention coming out of Washington.

It's unfortunate but true that New Mexico State University can write projects and receive funding support, Federal support, for such faraway places as Egypt and Yemen and sub-Saharan Africa, yet no resources are available for research and development projects with our closest and most important neighbor, Mexico.

Now, part of this neglect relates to the fact, as you know, that Mexico is classified as a middle-income country and, therefore, is not eligible for traditional R&D money. However, there ought to be some mechanisms to jointly support R&D activities for these two important countries to work together to solve their mutual problems.

I know that the major focus of these hearings may be on opportunities for further economic development on the United States side of the border, but our long-term interests can best be served by working with Mexico toward the reduction of the tremendous differences in the per capita incomes along that arbitrary line drawn by political and historic forces, which we call the Mexican border. Now, by working together, we have the basic resources and the opportunity to compete with any other region of the world for markets, tourism, and general economic activities.

The most consistent proposal that I have called to the attention of Congress and the White House—and I have written almost every year since I have been in higher education—has been for the creation of joint research and development teams made up of topnotch Mexican scientists—and there are many—and U.S. scientists to explore the opportunities for economic development along the border and between our two countries.

We need teams of experts financed by a joint R&D fund, removed from political pressure, to analyze the alternative approaches for our two countries, and to evaluate the pros and cons of the various alternatives.

Now, after the studies have been completed, the information can be turned over to the respective governments for decisions and followup action. I see tremendous opportunities for this approach for both countries in the agricultural sector, for tourism, for maquiladora-type programs, for energy and mineral development, and for other business enterprises, and for the solution to very complex environmental problems which we'll be hearing more and more about as time goes on.

Now, if we do not take a more serious approach to implement this kind of an effort, both countries will lose worldwide markets, particularly to Asia—and we heard about that in the first panel this morning. Even more importantly, this approach would tend to cement a lasting friendship with our most important neighbor and prevent further polarization among our peoples. American universities stand ready to help with the planning and implementation of this concept.

Now, let me say just two things about what I'm talking about. One is that this team would have to be financed by a fund made available by both countries. The team would have to be given an opportunity in each of these areas to explore the opportunities jointly of how we can compete in a changing world environment. The team would have to be nonpolitical, but once their studies are made, then they could turn them over to the respective governments for action.

The principal point would also have to be continuity. We see our relations with Mexico—and I have seen it, in my 68 years, get hot and cold and hot and cold in Washington. I have seen the States show varying degrees of interest. Now, if we had some kind of a focal point, nonpolitical, perhaps university based or jointly based with two or more universities on both sides of the border, we would have something to look for for continuity and for recommendations regardless of the change in the political arena.

Mexico is one of our top five trading partners. More specifically, Mexico is New Mexico's No. 1 trading partner. During 1986, Mexican exports to the United States totaled $15 billion, while U.S. exports to Mexico totaled $13 billion, a $2 billion trade deficit. Now, we heard a little different figure earlier. These are some of the statistics that I got a hold of recently.

Of course, oil is our No. 1 import from Mexico, with automobiles second. Of special interest to this committee may be the fact that 3 food items are in the top 10 U.S. imports from Mexico; tomatoes are third, frozen shrimp is sixth, fresh vegetables rank ninth. Coffee and fruit are also important components of the Mexican imports to the United States.

New Mexico State University is actively involved with Mexico through three major offices. First, the New Mexico Department of Agriculture, Mr. Bill Stephens is here, and some of his staff; the Center for International Programs, Mr. Harold Madison is here; and the Center for Latin American Studies, and you've already heard from Mr. Sadler.

A more detailed statement on these programs is attached to my prepared statement. However, I would like to emphasize a few points from this attachment which should be called to your immediate attention.

First, in the Center for International Programs—and even beyond the Center—we've had, through the years, about 30 faculty members involved in one way or another in studies related to Mexico. We have a memorandum of understanding for cooperation in education and research with several Mexican national institutes as well as universities in Chihuahua, Juarez, Monterrey, Chiapas, Nuevo Leon, Sonora, and Zacatecas.

NMSU has structured a graduate program with the first year in Spanish, to accommodate Spanish-speaking graduate students from Mexico and Latin America, and we've had a lot of students in that program.

We've had an exchange program for language and culture with the University of Chihuahua for several years, but the peso devaluation has caused a cessation at the present time.

Our Dona Ana campus is working with the city of Las Cruces on the Lerdo, Mexico, exchange, and we'll have some programs for training which will emanate from that cooperative effort.

Our College of Engineering is helping train faculty for several technological institutes in Mexico.

The College of Agriculture and Home Economics has had numerous faculty working with universities in Mexico and with organizations such as the Chihuahua Cattle Producers. I was personally involved over 20 years ago with one of my students, Mr. Martin Gonzalez, in the establishment of the La Campana Experimental Ranch near Chihuahua. This was a joint effort between the Chihuahua cattlemen and Mexican Government. By the way, I have talked with him many times about this joint effort for study teams.

The Mexican student enrollment at NMSU has dropped more than 50 percent since the beginning of the peso devaluation. This is particularly unfortunate because of today's need for specialized graduate training for Mexican nationals.

Our agricultural economics department has recently entered into a contract with the Ministry of Education in Mexico, using for the first time World Bank money to train directors and staff of the American agricultural schools and technical institutes. I think that's a step forward.

Now, looking to the New Mexico Department of Agriculture, which is really our major focus for direct economic development. The marketing activities of the NMDA under the leadership of Mr. Stephens, who serves also on the Governor's Cabinet, as you know, are particularly important to economic development. A more detailed statement is submitted in my prepared statement, but let me highlight just a few points.

In the public sector, we are working through CONASUPO and the Banco Rural for the sale of farm equipment, dairy cows, breeding stock, and seed to the Ejidos.

Now, since the Ejidos are Government-type operations, we have to work through Government agencies, but in the private sector, a recent trade liberalization has allowed the purchase of various kinds of equipment from U.S. suppliers without the approval of CONASUPO. This has been our most successful market, particularly in the sale of dairy cattle, slaughter ewes, and used farm equipment.

The free zone market is a special kind of a market. We are doing a study of the free zone through NMDA for the U.S. Embassy, the agricultural section in Mexico City.

The key to the New Mexico Department of Agriculture's success in the Mexican market has been to maintain a low profile marketing strategy. This relates to your comments on formal documentation and legal documents. Our ability to work directly with individuals and small groups, Mexican agricultural and livestock credit unions, Desarrollo Rural, for example, and other agricultural organizations in Mexico has been the foundation of our extensive marketing program over the years.

Raul Tellez is here in the audience, and Raul can tell you and show you some pictures of some of his direct contacts with people and how he negotiated the sale of these kinds of things to Mexico.

A newsletter has been created by the NMDA staff to accommodate frequent requests about New Mexico producers, suppliers, ranches, and so on. This newsletter is called NMDA Mercadotecnia, and we've attached some samples. You can take a look at those in Spanish. We now have 180 people on the mailing list, and there's a lot of interest in this.

I should point out that the Department of Agriculture is also involved with the USDA in the protection of our borders from the crossing of insects and diseases, and of course, you're all familiar with how important those kinds of activities are for cooperation between our two countries.

A detailed statement is submitted on specific export items such as beef cattle, sheep, farm equipment, grain exports, and pinto beans.

I want to thank you for the opportunity to present this brief statement. There are representatives here from the department and the university. Let me say to you, Senator Bingaman, that our university wants to do more in this area, and with limited resources, we can do much more than we're presently doing.

We have the contacts with the Mexican scientists. We have mechanisms where we can provide you and your coworkers in Congress and to the White House with objective studies so you have a real solid basis for decisionmaking as we move to try to compete in a different kind of world than we were 5 or 10 years ago. Thank you very much.

[The prepared statement of Mr. Thomas, together with the attachments referred to, follows:]

PREPARED STATEMENT OF GERALD W. THOMAS

Senator Bingaman, Members of the Committee, I have had a long and continuing interest in the improvement of the human condition in all countries of the world. This interest has taken me to over 50 countries, mostly in work related to food production and natural resources. As a result of those contacts, I remain convinced that there is a general neglect in our international programs of this hemisphere -- particularly in terms of joint efforts to assist with economic development and the improvement of basic human needs. It is unfortunate, but true, that New Mexico State University can write projects and obtain federal support for such far-away places as Egypt, Yemen, and Sub-Saharan Africa and yet no resources are available for Research and Development (R&D) projects with our closest and most important neighbor, Mexico!

Part of the neglect relates to the fact that Mexico is classified as a "middle income" country, and as yet, we have not designed good mechanisms to jointly support R & D activities between advanced economies.

While the major focus of these hearings may be on the opportunities for further economic development on the U.S. side of the border, our

NMSU

1888 Centennial Celebration 1988

long-term interests can best be served by working with Mexico toward the reduction of the tremendous differences in the per capita incomes along that arbitrary line drawn by political and historic forces which we call the Mexican border. By working together (i.e., Mexico and the U.S.) we have the basic resources and the opportunity to compete with any other region of the world for markets, tourism, and general economic activities.

The most consistent proposal that I have called to the attention of Congress and the White House over the past two decades has been for the creation of joint R & D teams made up of top-notch Mexican scientists (and there are many) and U.S. scientists to explore the opportunities for economic development along the border and between our two countries. We need teams of experts financed by a joint R & D fund, removed from political pressure, to analyze the alternative approaches for our two countries and to evaluate the pros and cons of the various alternatives. These studies could then be turned over to the respective governments for decisions and follow-up action. I see tremendous opportunities for this approach for both countries in the agricultural sector, for tourism, for Maquiladora-type programs, for energy and mineral development, for other business enterprises, and for the solution to complex environmental problems. If we do not take some serious steps to implement this joint R & D effort, both countries will lose world-wide markets -- particularly to Asia. Even more importantly, this approach would tend to cement a lasting friendship with our most important neighbor and prevent further polarization among our peoples. American universities stand ready to help with the planning and implementation of this concept.

Mexico is one of our top five trading partners. More specifically, Mexico is New Mexico's Number One trading partner. During 1986 Mexican exports to the U.S. totaled $15 billion , while U.S. exports to Mexico totaled $13 billion — a $2 billion trade deficit. Of course, oil is our number one import from Mexico, with automobiles second. Of special interest to this committee may be the fact that three food items are in the top ten U.S. import from Mexico: tomatoes are third, frozen shrimp is sixth, and fresh vegetables rank ninth. Coffee and fruit are also important components of the Mexican imports to the U.S.

New Mexico State University is actively involved with Mexico through three major offices: (1) the New Mexico Department of Agriculture; (2) the Center for International Programs; and (3) the Center for Latin American Studies. A more detailed statement on these programs is attached to my written submission. However, I would like to emphasize a few points from this attachment which should be called to your immediate attention.

Center for International Programs

— Over 30 faculty members at NMSU have been involved in studies relating to Mexico — we have Memoranda of Understanding for cooperation in education and research with several Mexican national institutes as well as universities in Chihuahua, Juarez, Monterrey, Chiapas, Nuevo Leon, Sonora, and Zacatecas.

— NMSU has structured a graduate program with the first year in Spanish (courses such as statistics) to accommodate Spanish speaking graduate students from Mexico and Latin America.

— We have had an exchange program for language and culture with the University of Chihuahua for several years but the Peso devaluation has caused a cessation at present.

-- Our Dona Ana campus is working with the city of Las Cruces on the Lerdo, Mexico exchange and development program.

-- Our College of Engineering is helping train faculty for several technological institutes in Mexico.

-- The College of Agriculture and Home Economics has had numerous faculty working with universities in Mexico and with organizations such as the Chihuahua Cattle Producers. I was personally involved over 20 years ago with one of my students, Dr. Martin Gonzales, in the establishment of the La Campana Experimental Ranch near Chihuahua -- a joint effort between the Chihuahua Cattlemen and the Mexican Government.

-- Mexican student enrollment at NMSU has dropped more than 50 percent since the beginning of the Peso devaluation. This is particularly unfortunate because of today's need for specialized graduate training for Mexican nationals.

-- Our Agricultural Economics Department has a contract with the Ministry of Education in Mexico, using World Bank funding, to train Directors and staff of Mexican agricultural schools and technical institutes.

New Mexico Department of Agriculture

The marketing activities of the New Mexico Department of Agriculture, under the leadership of Dr. Bill Stephens, who serves on the Governor's Cabinet, are particularly important to economic development. A more detailed statement is submitted in my written testimony but let me highlight a few points:

-- In the public sector we are working through CONASUPO, and the Banco Rural for the sale of farm equipment, dairy cows, breeding stock, and seed to the "Ejidos".

— Recent trade liberalization has allowed the private sector to purchase direct from U.S. suppliers without the approval of CONASUPO. This has been our most successful market, particularly in the area of dairy cattle, slaughter ewes and used farm equipment.

— The "Free Zone" market receives special attention due to its isolation from Mexico City. NMDA is responsible for preparing the "Free Zone Study" for the U.S. Embassy's agricultural counselors in Mexico City.

— The key to the New Mexico Department of Agriculture's success in the Mexican market has been to maintain a low profile marketing strategy. Our ability to work with individuals and small groups, i.e. Mexican agricultural and livestock credit unions, Desarrollo Rural, and other agricultural organizations in Mexico have been the foundation of our extensive marketing program over the years.

— A newsletter has been created by NMDA staff to accommodate frequent requests about New Mexico producers, suppliers, ranches, etc. The newsletter is called "NMDA Mercadotecnia" and is published in Spanish. Circulation is currently over 180 (samples are attached).

— A detailed statement is submitted on specific export items such as beef cattle, sheep, farm equipment, grain exports and pinto beans.

Thank you for the opportunity to present this brief statement. Representatives of the Department of Agriculture and the university are available for more detailed questioning.

Attachments
#1: New Mexico State University: Activities Relating to Mexico
#2: NMDA Focus Statement: Marketing Activities in Mexico
#3 NMDA Mercadotecnia (Newsletter)
#4: NMDA Background Information on Mexican Trade
#5: NMDA News Release: Las Cruces Sun-News

ATTACHMENT #1

NEW MEXICO STATE UNIVERSITY

Activities Relating to Mexico

1. Center for International Programs

A. Monterrey Exchange: The college of Engineering and Business Cooperate in a junior year abroad exchange program with the Instituto Tecnologico y de Estudios superiores de Monterrey.

B. Lerdo Agreement: The Dona Ana Branch and CIP cooperate in student and faculty visits, short-term scholarly exchanges, and donation of equipment with Centro de Bachillerato Industrial y de Servicios No. 4, Ciudad Lerdo.

We also cooperate with two programs that attract Mexican students to the campus:

C. Spanish Speaker's Graduate Program, in cooperation with Graduate School, Speech Department and Experimental Statistics, allows Spanish Speaking professionals to begin graduate studies with little or no English. Currently 12 Mexican students are enrolled in this program.

D. Spanish MA Program, conducted by the Foreign Languages Department, provides graduate assistantships to Mexican students who study Spanish literature and teach Spanish classes. Currently, eight Mexican students are enrolled.

We have offered (since 1972) an exchange program in Chihuahua with the Universidad Autonoma de Chihuahua (Spanish Language/Mexico modern history and culture), but this will be suspended effective Summer 1986 due to the Mexican financial crisis.

In Summer 1985, we co-sponsored a student visit program with the Universidad Autonoma de Tamaulipas, Mexico, which involved NMSU students in doing surveys of infection diseases and parasite infestations in eastern Mexico.

E. Memorandums of Understanding (Agreements to cooperate) with Mexican Institutions:

-La Universidad Autonoma de Chihuahua
-Instituto Nacional de Investigaciones Agricolas
-Instituto Tecnologico y de Estudios Superiores de Monterrey
-Instituto Nacional de Investigaciones Agricolas (SARH-INIA) (pending)
-General Directorate of Regional Technological Insitutes of the United States of Mexico.
-Centro de Cachillerato Tecnologico Industrial y de Servicios No. 4.
-Universidad Autonoma de Chiapas.

2. Center for Latin American Studies

    A. Support staff for New Mexico Border Commission
    B. U.S./Mexico report
    C. Fencing along the New Mexico/Mexico border
    D. Support for the Santa Theresa border crossing project.

3. College of Agriculture and Home Economics

    A. Teaching Activities

    Members of this department have:

    1. taught a course in genetics at the University of Chihuahua;

    2. advised the faculty of animal science at the University of Chihuahua on curriculum for their graduate programs;

    3. taught pregnancy testing and artificial insemination shortcourses in Chihuahua;

    4. taught cattle improvement shortcourses in Chihuahua and Chiapas;

    5. supervised graduate degrees at NMSU for many current faculty members at the University of Chihuahua;

    6. conducted class field trips in Chihuahua; and

    7. taught graduate level classes at the University of Nuevo Leon.

    B. Research Activities

    1. Some graduate students from Chihuahua and Nuevo Leon have collected research data in Mexico for use in their M.S. thesis at NMSU.

    2. Some faculty members in our department have done research related to animal and range science in Chihuahua and Zacatecas.

    3. Some faculty members have served as consultants on research programs of the University of Chihuahua and the University of Nuevo Leon.

4. The department of Experimental Statistics at NMSU has assisted in analysis of research data at the University of Chihuahua.

5. Faculty in animal and range sciences have toured beef research units and participated in a conference sponsored by INIP, the national research unit for livestock.

6. We have assisted in purchase and export of breeding animals to the University of Chihuahua for research herds.

C. Extension and Service Activities

1. Our faculty members have been invited as speakers at field days and conferences in Chihuahua, Sonora and Nuevo Leon.

2. Some faculty have done consulting activities for private ranchers in Mexico in beef cattle improvement and reproduction.

ATTACHMENT #2

STATE OF NEW MEXICO

Department of Agriculture

GOVERNOR'S CABINET

Box 3189, NMSU Campus
Las Cruces, New Mexico 88003
Phone: (505) 646-3007

GARREY CARRUTHERS
Governor

WILLIAM P. STEPHENS
Secretary

Focus Statement

New Mexico Department of Agriculture

(NMDA)

Marketing Activities in Mexico

There are essentially three market areas which we address:

1. Public Sector (includes Ejido)

   A. Major government entity is CONASUPO

   B. The ejidos are major buyers of used farm equipment, dairy cows, breeding stock, and seeds through Banco Rural and other banks.

2. Private Sector

   Includes all sectors of agriculture and recent trade liberalizations have allowed private sector to purchase direct from U.S. suppliers without approval from CONASUPO. This has been our most successful market, particularly in the area of dairy cattle, slaughter ewes, and used farm equipment.

3. Free Zones

   A. This market receives special attention due to its isolation from Mexico City. The free zones encompass the geographical area 22 kilometers from the U.S./Mexican border. This area has special import regulations which allow consumer goods in. The New Mexico Department of Agriculture (NMDA) is responsible for preparing the "Free Zone Study" for the U.S. Embassy's agricultural counselor in Mexico City.

   B. The key to NMDA success in the Mexican market is a low profile marketing strategy. Our ability to work with individuals and small groups, i.e. Mexican agricultural and livestock credit unions, Desarrollo Rural, and other agricultural organizations in Mexico has been the foundation of our extensive marketing program over the years.

NMDA personnel have worked extensively in Mexico to develop new markets and expand existing markets for New Mexico agricultural products, livestock, farm equipment, and services.

1. Beef Cattle Exportation

   NMDA personnel routinely attend numerous livestock expositions and industry related functions in Mexico. In addition, staff hosts Mexican cattle buyers and escorts them throughout New Mexico to meet producers and purchase breeding stock.

   In September 1987, during the New Mexico State Fair, NMDA staff will escort groups of Hereford and Brangus breeders from the Mexican state of Chihuahua to the respective Hereford and Brangus sales, September 20 and 24, 1987.

2. Farm Equipment

   In cooperation with the Mexican agricultural credit unions and other agricultural organizations, NMDA has been successful in promoting the sale of new and used farm equipment. NMDA staff assisted New Mexico farm equipment dealers and farmers in the sale of approximately $800,000 of new and used farm equipment in the past two years.

3. Dairy Cattle Sales

   NMDA staff escorted New Mexico dairymen and livestock brokers to the Mexican states of Chihuahua, Coahuila, and Durango. Meetings were set up by NMDA staff at which the Dairy Termination Program was explained to the Mexican dairymen. The meetings proved to be highly successful. Eighteen Mexican dairymen from the three Mexican states visited New Mexico and purchased 4,106 cows, heifers, and calves, valued at over $1.8 million, which were exported to Mexico from New Mexico dairies involved in the program.

4. Grain Exports

   NMDA staff have assisted the New Mexico grain trade with the mechanics of exporting to CONASUPO and buyers in the private sector. NMDA staff are currently working with a credit union in Coahuila that imports 60,000 metric tons per year.

5. Sheep Sales

   NMDA staff organized and conducted sheep trade missions to Mexico. New Mexico sheep exporters were introduced to the principal Mexican sheep importers. In 1984 and 1985, approximately 32,000 head of packer and bred ewes valued at over $1.6 million were exported.

6. Pinto Beans

   NMDA staff have conducted numerous initiatives to locate pinto bean importers. As a result, numerous truckloads of pinto beans have been exported annually when market conditions are favorable and shortages exist in Mexico.

7. **Mexican Agricultural and Livestock Credit Unions**

This organization of credit unions numbers 62. The organization has over 28,000 members throughout the Republic of Mexico, with membership consisting specifically of individual agricultural producers. New Mexico's Secretary of Agriculture, Dr. William P. Stephens, invited the organization to hold its last quarterly meeting of each calendar year here in Las Cruces. This is a two-day meeting where New Mexico producers have the opportunity to meet the Mexican officials. These meetings have proven to be very successful and will be held each December.

A newsletter has been created by NMDA staff to accommodate frequent requests about New Mexico producers, suppliers, ranches, etc. The newsletter is called "NMDA Mercadotecnia" and is published in Spanish. Circulation is currently over 180.

ATTACHMENT #3

NMDA MERCADOTECNIA

enero 1987 Volume II, Number 1

El día 11 al 12 de diciembre de 1986, el consejo directivo de la Asociación Nacional de Uniones de Crédito Agrícola y Ganadero celebró la última reunión de 1986 aquí en Las Cruces, Nuevo México. La divición de Mercadotecnia y Desarrollo del Departamento de Agricultura del Estado de Nuevo Mexico y el Centro de Convenciones coordinaron una recepción para los participantes que estuberion presente. Durante la recepción, varias empresas de Nuevo México represantando productores de ganado lechero, ganado bovino, semillas, fertilizantes, equipo agrícola, equipo rayo-laser y otros productos estaban presente.

Yo, personalmente, los quiero invitar que en diciembre de 1987 el consejo directivo vuelva a sostener la última junta aquí en las oficinas del Departamento de Agricultura en Las Cruces, Nuevo México. Estamos muy contentos que estuberion aquí en esta ciudad y esperamos que vuelvan en diciembre 1987.

W.P. Stephens

Dr. William P. Stephens
Director/Secretario del
Departamento de Agricultura
del Estado de Nuevo Mexico

EVENTOS

Subasta Anual de Equipo Agrícola; 12 al 14 de febrero 1987; Las Cruces, Nuevo México. Esta subasta es una de las más grandes en los Estados Unidos.

- El jueves, 12 de febrero 1987, es la subasta de equipo de construcción, muchos trascavos, camiones, tortons, llevanta cargas, generadores, compresores de aire, y otro equipo.
- El viernes, 13 de febrero 1987, es la subasta de equipo agrícola, muchos anados, cultivadores, sembradores, rastras, y otro equipo para la agricultura.
- El sabado, 14 de febrero 1987, es el día que se encuentran más de 300 tractores de todos tipos, empacadoras de alfalfa, cortadoras de alfalfa, llevanta pacas y cosechadoras de algodón.

Informes: Mr. Charles F. Dickerson; Charles F. Dickerson Auctioneers; Inc.; P. O. Box 161; Fairacres, New Mexico 88033. (505) 524-0437 o 526-1106.

Venta Especial de Ganado Bovino; 13 de febrero 1987; Roswell, Nuevo Mexico. Informes: Mr. Larry Wooton, Roswell Livestock Auction Co., 900 North Garden, P. O. Box 2041, Roswell, New Mexico 88201. (505) 622-5580.

Venta Anual de Toros de Raza Hereford de la Asociacion de la Raza Hereford de Nuevo Mexico; 21 de febrero 1987; Roswell, Nuevo Mexico. Informes: Mr. Robert Henard, Executive Secretary, New Mexico Hereford Association, Box 535, Lovington, New Mexico 88260. (505) 396-2780.

Curso de inseminación artificial y prueba de preñez; del 9 al 13 marzo 1987; Albuquerque, New Mexico. Informes: Dr. Jack Ruttle, New Mexico State University, Box 3-I, Las Cruces, New Mexico 88003. (505) 646-4135 o 524-3469.

GANADO

Productores de ganado en Nuevo Mexico: (Por favor archivar lista)

Barbe Farm. Mr. Kenneth Barbe, 800 West Mescalero Road, Roswell, New Mexico 88201. (505) 622-4291 o 622-6613. Becerros.

Batie Suffolk Farm. Mr. Eugene Batie, Route 4, Box 508, Tucumcari, New Mexico 88401. (505) 461-0714. Ganado ovino de raza Suffolk con registro.

Canyon Blanco Ranch. Ben o Frances Hall, P. O. Box 626, Fort Sumner, New Mexico 88119. (505) 355-2525. Ganado bovino registrados de raza Longhorn.

Clavel Ranch. Mr. Joe Clavel, Star Route, Roy, New Mexico 87743. (505) 485-2591. Becerros y terneros comerciales de raza Hereford.

Diamond A Cattle Company. Mr. Joe A. Mims, Box 1000, Roswell, New Mexico 88201. (505) 622-3140. Toros de raza Angus y Longhorn con registros.

Diamond Lazy S Cattle Co. Mr. Lee H. Stampe, 1037 Fairway Terrace, Clovis, New Mexico 88101. (505) 762-4210 o 389-5321. Asesor de ganado.

McLaughlin Ranch. Mr. Robert W. McLaughlin, Box 53, Encino, New Mexico 88321. (505) 584-2815. Ganado bovino de raza Hereford y negro con cara blanca, ganado ovino, y lana.

Seven Rivers Farms and Cattle Co. Mr. Gil Moutray o Mike Welch, Box 280, Carlsbad, New Mexico 88220. (505) 457-2503. Ganado bovino.

EQUIPO USADO

(Por favor archivar lista)

Case Power and Equipment. (Equipo International Harvester). Mr. Duane Powell, 4100 Mabry Drive, P. O. Box 1811, Clovis, New Mexico 88101. (505) 762-4453.

Deming Implement. (Equipo John Deere). Mr. and Mrs. Hal Keeler, P. O. Box 819, Deming, New Mexico 88031. (505) 546-2773.

Romney Equipment Co., Inc. (Equipo John Deere). Mr. Sam Melendrez, P. O. Drawer 1450, 1305 South Valley Drive, Las Cruces, New Mexico 88004. (505) 524-2822 o 522-6270.

ALIMENTOS BALANCEADOS, SEMILLAS Y INSECTICIDAS

(Por favor archivar lista)

Artesia Alfalfa Growers' Association. Mr. John W. Wilson, P. O. Drawer X, Artesia, New Mexico 88210. (505) 746-3522 o 746-4642. Productos de alfalfa.

Atoka Alfalfa Co. Bill o Shirley Byrd, Route 1, Atoka Store, Artesia, New Mexico 88210. (505) 746-4994. Molino triturador, semilla de alfalfa, cubos, y pacas.

Curry County Grain and Elevator Co., Inc. Mr. Malcolm Garrett, 600 Curry Avenue, P. O. Box 520, Clovis, New Mexico 88101. (505) 762-2946. Productos de granos, y alimentos en bolsas para ganado.

Melrose Grain and Elevator Co., Inc. Mr. Grady Bright, P. O. Box 367, Melrose, New Mexico 88124. (505) 253-4246. Sorgo y trigo.

New Mexico Seeds, Inc. Mr. Danny Young, Route 4, Box 149, Tucumcari, New Mexico 88401. (505) 576-2789. Granos pequenos, sorgo, alfalfa, y agropiron.

Roswell Seed Company, Inc. Mr. James F. Gill, P. O. Box 725, Roswell, New Mexico 88201. (505) 622-7701. Semilla de alfalfa, cebada, avena, y centeno.

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9:00 AM - **FRIDAY, FEBRUARY 13, 1987**
Farm Implements, Plows, Cultivators, Planters, Blades, Bed Shapers, Discs, Border Discs, Listers, Chisels, Scrapers, 3 Point Blades, etc.

9:00 AM - **SATURDAY, FEBRUARY 14, 1987**
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RUST		COTTON PICKER	750.00
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JD	4630	TRACTOR (NO CAB)	13,000.00
JD	4840	TRACTOR (CAB & AIR)	26,000.00
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JD	9ROW	600 PLANTER	3,000.00
JD	6ROW	51 PLANTER	2,000.00
JD	6ROW	51 PLANTER W/INSECT. BOXES	2,500.00
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JD	4600	5 BOTTOM PLOW	5,500.00
JD	325	2 BOTTOM SLAT PLOW	500.00
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WHITE		4 BOTTOM SLAT PLOW	4,250.00
MF		4 BOTTOM SOLID PLOW	1,500.00
JD	4ROW	REAR MOUNT CULTIVATOR	1,500.00
JD	709	STALK CUTTER	1,700.00
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diciembre 1986

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1175 Case tractorw/ cab, 3 pt	124hp.	8600.00
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1170 Case tractor a/cab, 3 pt.	124hp	9300.00
1175 Case tractor w/ cab, 3 pt.	124hp	7600.00
1175 Case tractor w/ cab, 3pt	124hp	10000.00
1270 Case tractor w/ cab, a/c	134hp	10500.00
1270 Case tractor w/ cab, a/c	134hp	10800.00
1370 Case tractor w/ cab, a/c	156hp	12100.00
1370 CAse tractor w/ cab, a/c	156hp	9500.00
2394 Case tractor w/ cab, a/c	160hp	32700.00
2394 Case tractor w/ cab, a/c	160hp	36700.00
1570 Case tractor w/ cab a/c	180 hp	20000.00
3294 Case tractor FWD cab, a/c	160hp	32000.00
1570 Case tractor cab, a/c	156hp	19200.00
2394 Case tractor cab, a/c	160hp	35900.00
2290 Case tractor cab, a/c	129hp	14400.00
2590 Case tractor cab, a/c	180hp	27000.00
2670 Case tractor cab, a/c 4 WD	221hp	20000.00
4690 Case tractor cab, a/c 4 WD	221hp	34000.00
TW 30 Ford tractor cab a/c FWD	180hp	25000.00
2255 Oliver tractor cab, 3 pt.	120hp	7300.00
4-150 White tractor cab, a/c	150hp	14500.00
150 M F tractor w/ 3pt.	40hp	3100.00
1466 IH tractor w/ cab duals	130 hp	8300.00
TILLAGE		
5 bt Oliver plow		1400.00
4 bt Case plow		1200.00
21 ft Kewannee disk		2550.00
12 ft IH tamden disk		350.00
21 ft Miller disk (offset)		2600.00
Combines		
915 IH combine w/ 20 ft grain head		8600.00
860 MF combine w/ 24 ft grain head		39999.00
750 MF combine w/ 20 ft grain head		14000.00

diciembre 1986

Case Power and Equipment
4100 East Mabry
Clovis, New Mexico 88101
Phone (505) 762-4453

J I Case
A Tenneco Company

TENNECO

Hay Equipment

2270 J.D. Swather Self propelled	7400.00
2280 J.D. Swather Self propelled	10000.00
830 J.D. Swather self propelled	3100.00
1034 NHBale Wagon pultype	8000.00
850 NH Round Baler	3200.00
605A Vermeer round Baler	4200.00
5800 Hesston round baler	2000.00

Forage Equipment

1880 NHforage chopper	14000.00
1895 NH forage chopper	9900.00
782 Forage chopper pultype	12000.00
Davis enslige wagon	800.00
GMC truck with hoist and bed	3000.00

The list of equipment is picked up at Clovis, New Mexico.

Thank you

M.D. Powell
Manager

diciembre 1986

ESTES INTERNATIONAL FARM & TRUCK SUPPLY
2801 S.E. Main Street • Roswell, New Mexico 88201 • (505) 622-8042

HESSTON
FARM EQUIPMENT

TRUCKS - CAMION

Model:	Condition	Price
1973 Chevrolet C60 Bus	Good	$1,850.00
1969 Ford B700 Bus	Good	1,750.00
1973 GMC Astro	Good	8,500.00
1978 Chevrolet C60	Fair	2,900.00
1980 Ford F150 Pickup	Good	2,700.00
Caja de 45' Cerrado (3)	Good	2,750.00
1980 Ford F600 w/New Dump Bed	Good	8,500.00
1961 IH B160 Truck w/180 Oswalt Feed Bed	Fair	3,850.00
1968 IH 2110 Truck w/40' Cattle Trailer	Good	8,000.00
1969 Fruehauf 42' Trailer	Good	4,000.00

TRACTORS

Model:		
IH 806D Tractor	Good	$4,500.00
IH 400 Tractor	Fair	900.00
IH 856D Tractor	Fair	5,200.00
IH 1086 Tractor	Fair	7,500.00
IH 1086 Tractor	Good	7,500.00
JD 4320 Tractor	Good	6,900.00
IH 100 Hydro Tractor w/900 CB Transcavo	Good	7,500.00
JD 2010 Diesel Tractor	Good	3,800.00

FARM EQUIPMENT

Model:		
500 Cyclo Sembradora de Algodon	Fair	$ 900.00
JD Model B Sembradora de Granos	Fair	800.00
IH 375 Macina para cortar Alfalfa	Fair	2,500.00
IH 5000 Macina para cortar Alfalfa #C000903	Good	7,000.00
IH 5000 Macina para cortar Alfalfa #C000834	Good	7,000.00
Hesston 4800 Empacabora del Hilo Grande	Good	15,000.00
IH 5000 Macina para cortar Alfalfa #1057	Good	9,500.00
Hesston 1014 Macina para cortar Alfalfa	Good	5,900.00
IH 445 Empacabora del Alambre #U001554	Good	4,000.00
Hesston 1014 Hydro Macina para cortar Alfalfa	Good	5,900.00
1975 Model 1282 NH Empacabora del Alambre	Good	3,500.00
1975 Model 1282 NH Empacabora del Alambre	Good	3,500.00
IH 622 Diesel Piscadora de Algodon	Good	3,900.00
IH 782 Diesel (2) Piscadora de Algodon	Good	17,000.00
Allen Model 789 Double Rake	Good	5,800.00
(2) IH 5100 Sembradora de Granos	New	3,300.00
IH 475 Disk Harrow w/Hyd. Cyl.	New	3,350.00
Hesston 2420 Disk Harrow	New	4,150.00

Romney Equipment Co.
P. O. Drawer 1450
Las Cruces, New Mexico 88004

Sales Representative: Mr. Sam Melendrez
Phone: (505) 524-2822
(505) 522-6270

Equipment	Condition	Price
4840 John Deere Overhauled; Cab with air-conditioning; dual wheels	very good	$29,000
4430 John Deere No cab; synchro range transmission		$ 9,700
4010-D John Deere Wide front	good	$ 5,400
3020-D John Deere Wide front; power shift; no cab	good	$ 5,200
6600 John Deere Combine (1976) 2200 hours; gear drive; corn, grain, bean; with 16 feet platform	very good	$11,500
1086 International Harvester Tractor (1980) Cab air; 20.8 x 38 single rear; engine overhauled; fully weighted		$12,400
7060 Allis Chalmers (1976) Cab air; 3300 hours, single rear wheels	very good	$12,500
160 DX Deutz Tractor (1980) Cab air; four wheel drive; new clutch	very good	$17,500

ATTACHMENT #4

NEW MEXICO DEPARTMENT OF AGRICULTURE

DIVISION OF MARKETING AND DEVELOPMENT
Box 5600/Las Cruces, New Mexico 88003
Telephone (505) 646-4929

NEW MEXICO STATE UNIVERSITY

May 18, 1987

05.18 mex.trade2fad.5/87

MEMORANDUM

TO: Frank A. DuBois

FROM: Edward M. Avalos

SUBJECT: Background Information on Mexican Trade

1. Mexico has banned the importation of fluid milk from the U.S. specifically to assist the depressed dairy industry in Mexico and stimulate an increase in production to help satisfy the country's milk requirements. However, some exceptions have occurred along the Texas/Mexico border region. Lee Mears, agricultural counselor, American Embassy in Mexico City, indicated Mexico still continues to import approximately $4.5 million annually of fluid milk through the Brownsville/Matamoros region.

2. The suspension of cattle exports to the U.S. was implemented by the Mexican Secretariat of Commerce and Industrial Development (SECOFIN) in an attempt to stabilize the internal beef market and decrease retail beef prices. Brokers and other sources within the industry also indicated the embargo was implemented in retaliation to the USDA "M" brand regulation. The regulation requires all Mexican steers exported to the U.S. to be branded with an "M" for Mexico, in order for U.S. buyers to identify how many animals die from the bovine tuberculosis virus. The Mexican cattle industry considers the regulation a trade barrier due to the low TB index in Mexico (as determined by Mexican officials).

3. Congressman Richardson's amendment to the Trade Bill indirectly affects the importation of Mexican steers. Under current law, individuals and industry suffering unfair or excessive competition from imports must undergo an extensive and long-term process in order to remedy the situation. The amendment addresses this issue and establishes a mechanism to expedite the process and allow the special trade representative from the International Trade Commission to act without final decision from the President. In addition, perishable commodities, including livestock, are identified. Congressman Richardson's Washington Office will send us a copy of the amendment.

4. Senator Lloyd Bentsen, chairman of the Senate Finance Committee, recently issued a news release identifying a request from the beef caucus for a thorough study by the International Trade Commission on the impact and possible damage to the industry as a result of Mexican cattle imports. In the news release, Senator Bentsen supported the request. To date, a formal request has not been issued.

5. The NCA is in the process of appointing a task force to address the Mexican cattle import issue. A New Mexico representative will definitely be on the task force. It is anticipated Bob Jones will be asked to serve as the New Mexico representative. First meeting is tentatively scheduled for mid-June.

6. NCA is currently preparing their final comments addressing the H2A program of the immigration law. NCA feels the program is unworkable because it has too much emphasis on the seasonality of labor. This excludes dairies, feedlots, and other livestock operations. They are sending copies of their remarks. Deadline for submitting comments is May 19, 1987.

Sources:

1. Mr. Pete Arajo
   ABACO Customhouse Brokers
   El Paso, TX
   Telephone: (915) 542-1742

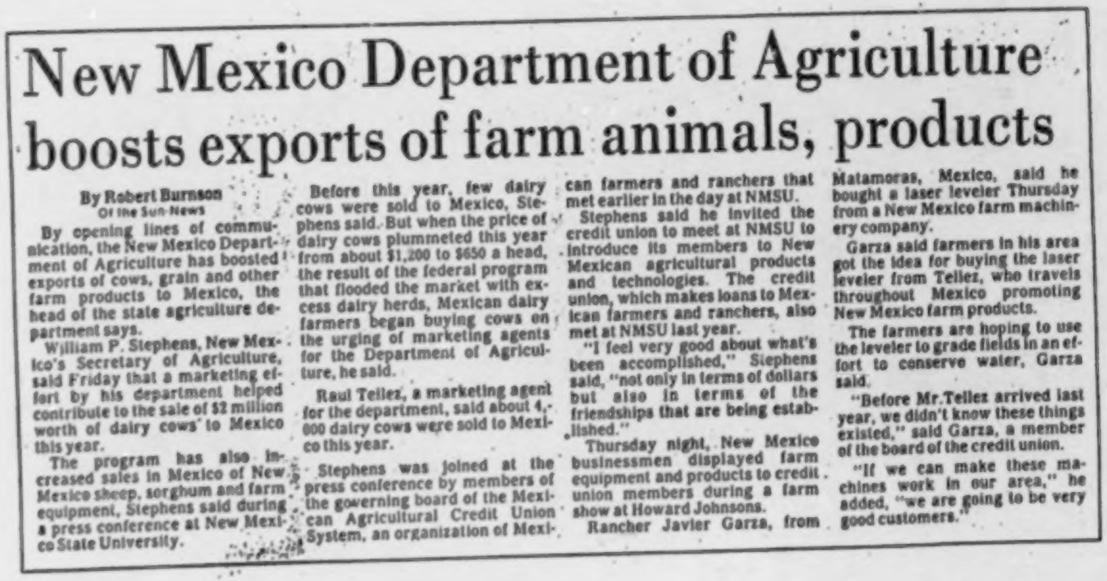
2. Mr. Tom Cook
   Mr. Chantley Keys
   National Cattlemen's Association
   Washington, D.C.
   Telephone: (202) 347-0228

3. Congressman Bill Richardson's Office
   Washington, D.C.
   Telephone: (202) 224-3121

4. Mr. Lee Mears, Agricultural Counselor
   American Embassy
   Mexico City
   Telephone: (905) 211-0042

ATTACHMENT #5

(From the Las Cruces Sun-News, December 14, 1986)



New Mexico Department of Agriculture boosts exports of farm animals, products

By Robert Burnson
Of the Sun-News

By opening lines of communication, the New Mexico Department of Agriculture has boosted exports of cows, grain and other farm products to Mexico, the head of the state agriculture department says.

William P. Stephens, New Mexico's Secretary of Agriculture, said Friday that a marketing effort by his department helped contribute to the sale of $2 million worth of dairy cows to Mexico this year.

The program has also increased sales in Mexico of New Mexico sheep, sorghum and farm equipment, Stephens said during a press conference at New Mexico State University.

Before this year, few dairy cows were sold to Mexico, Stephens said. But when the price of dairy cows plummeted this year from about $1,200 to $650 a head, the result of the federal program that flooded the market with excess dairy herds, Mexican dairy farmers began buying cows on the urging of marketing agents for the Department of Agriculture, he said.

Raul Tellez, a marketing agent for the department, said about 4,000 dairy cows were sold to Mexico this year.

Stephens was joined at the press conference by members of the governing board of the Mexican Agricultural Credit Union System, an organization of Mexican farmers and ranchers that met earlier in the day at NMSU.

Stephens said he invited the credit union to meet at NMSU to introduce its members to New Mexican agricultural products and technologies. The credit union, which makes loans to Mexican farmers and ranchers, also met at NMSU last year.

"I feel very good about what's been accomplished," Stephens said, "not only in terms of dollars but also in terms of the friendships that are being established."

Thursday night, New Mexico businessmen displayed farm equipment and products to credit union members during a farm show at Howard Johnsons.

Rancher Javier Garza, from Matamoras, Mexico, said he bought a laser leveler Thursday from a New Mexico farm machinery company.

Garza said farmers in his area got the idea for buying the laser leveler from Tellez, who travels throughout Mexico promoting New Mexico farm products.

The farmers are hoping to use the leveler to grade fields in an effort to conserve water, Garza said.

"Before Mr. Tellez arrived last year, we didn't know these things existed," said Garza, a member of the board of the credit union.

"If we can make these machines work in our area," he added, "we are going to be very good customers."

Senator **Bingaman**. Thank you very much. Let me ask you a couple of questions that occurred to me.

I spoke this noon to the El Paso Foreign Trade Association, which is, of course, a very robust organization pursuing increased trade back and forth. Is that something that southern New Mexico and Dona Ana County, in particular, are participating in to any extent? I mean, is that something that we should be participating in to a greater extent?

It strikes me that there's an awful lot going on down there that we are not actively involved in or knowledgeable about. When I say "we," I mean the community here in southern New Mexico.

Mr. **Thomas**. I'll comment, and I think Mr. Sadler should comment on that, too. I think we spend too much time fighting—and we do have some issues that are very controversial to argue over, but there are so many opportunities for joint efforts.

All along the Rio Grande, not talking just about Las Cruces and El Paso, but with our technet and all our accommodations and facilities that we have within our universities—New Mexico State University Mexico has unique capabilities of working in Mexico, with all these opportunities. Working with UTEP, combining the efforts of the chamber, we can do much more than we're presently doing.

Senator **Bingaman**. All right. Ray, did you have a thought on this?

Mr. **Sadler**. The El Paso group has, I think, been very open with inviting representatives of the various groups. I certainly agree with Mr. Thomas' sentiment. I think there has been some hesitation because of certain difficulties which do exist about being "overwhelmed" and being a very minor part of that kind of relationship. I speak only for myself.

Let me do mention, we as New Mexicans, with a population of only 1.5 million, have, I think, with cooperative efforts through, for example, the consortium with the University of New Mexico, the Latin American Institute at UNM, and the Center for Latin American Centers at New Mexico State, one of the true U.S. Department of Agriculture international studies area specialty groups in the country. It's a genuine one. It's a real operation.

We are linked with UCLA, with Stanford, with San Diego State, with Arizona, Arizona State, the University of Texas at Austin, Tulane, the Overseas Development Council, and so forth. So I think we have tried to use a number of mechanisms where New Mexico would not be overwhelmed, would not be drowned in a much larger kind of context, where we are an active participant.

Senator **Bingaman**. Brent, do you have a comment on that?

Mr. **Poirier**. Yes. At the Foreign Trade Association meetings in El Paso, as well as at the International Committee of the Albuquerque Chamber of Commerce meetings, you'll see a sprinkling of people from Las Cruces, Silver City, and so on, but it is limited involvement. Maybe, feeding into those organizations may be the best we can do at the moment, but what we really need is a similar organization here.

There is nothing that really brings all of the people that are in—whether they're in the academic community and involved in international affairs or the business community or government, there's nothing in New Mexico that's comparable, other than, as I said, the International Committee of the Albuquerque Chamber. But that's quite a trip.

Senator BINGAMAN. Yes.

Mr. THOMAS. Could I make one other observation on this? If you look at where the financing is coming from for the kinds of activities we're doing, very little of it is coming from the Federal Government. Yet, the Federal Government has a responsibility for the border. It's State support, or we rustle up money from this source or that source.

In the case of the Department of Agriculture, they have money that comes from the State for marketing kinds of programs, but many of the responsibilities transcend State lines, and we have to have some kind of a Federal canopy to keep continuity.

Senator BINGAMAN. To the extent that there is Federal funding for the kinds of things you're referring to, does it come through AID? Where does it come from?

Mr. THOMAS. It would have to be some kind of special program, because U.S. AID, due to the limitations of Congress, cannot spend money on middle-income, graduate, or developed countries. And I don't think Mexico would be willing to say that they want help from any agency for international development.

We're talking about a jointly sponsored one-on-one, where they put up an equal amount of money with us so that they're equal partners in the endeavor for the joint teams.

Now, there's some other kinds of things we can do on our own with some kind of minimum Federal support, but I think, as we work with Mexico, we have to work on an equal, coequal basis, and they have excellent scientists.

Senator BINGAMAN. With regard to agricultural trade, I know there has been a significant increase—or my sense is that there has been a significant increase in the extent of the agricultural trade between Mexico and New Mexico in the last few years. Is there a significant additional opportunity for U.S. agricultural products to be sold to Mexico? Is that what's going on? Or is it the other way around? I mean, are we exploiting it to the extent possible, or are we just scratching the surface?

Mr. THOMAS. Can I get either Mr. Stephens or Raul Tellez to comment on this?

Senator BINGAMAN. Yes. Raul.

Mr. TELLEZ. Thank you, Senator. My involvement in the last 2 years with the department started when Mr. Stephens, Secretary of Agriculture, extended an invitation to the Mexican credit unions, which number 62 in the Republic of Mexico, and they have approximately 28,000 members.

Mr. Thomas mentioned the little newsletter that is attached to this document, and it is in Spanish. We provide notices of schools here at the university, or when they're in Albuquerque, of auctions in this particular issue.

This is the January issue, which shows the big auction that Dickerson holds here in Las Cruces—80 percent, a good 50 to 60 percent of the people came from Mexico because we have provided that mailing list.

Senator BINGAMAN. This is an auction of farm equipment?

Mr. TELLEZ. Yes, sir, of farm equipment right here in Las Cruces. It runs for 3 days.

The next is a list of used equipment from Deming Implement Co. Next is a list of used equipment from Case Power & Equipment in Clovis, Estes International in Roswell, NM, and Romney Equipment in Las Cruces.

This is mailed out to the 62 credit unions, Desarrollo Rural, which is a Mexican organization through the Republic of Mexico, which caters to the Ejidos. Also, to CIDN, which is your Centros Investigacion del Norte, equivalent to our experiment stations, and private individuals who have come into our office and asked to be placed on this mailing list.

This week, Senator, I closed three deals; one in Deming, and two here in Las Cruces. Two John Deere combines we'll move Monday through the port of Palomas to Chihuahua, $38,000.

Senator BINGAMAN. This is second-hand farm equipment, again?

Mr. TELLEZ. Yes, sir, all used farm equipment. The cattle van is moving today from Deming to Nueva Casa Grandes. And last night, at 9, on a handshake, a deal was closed on a Caterpillar and a lowboy for $10,000.

This has been a very exciting week for me. I have been going home at 9, 10 every night, but we've been making sales. Two of these people yesterday asked me to take them to a place to buy veterinary supplies. We had 10 minutes to walk into Sunmark Mercantile here in Las Cruces. They walked out with $640 worth of merchandise. They are coming here because this is being made available. We are mailing this from NMDA, marketing and development, and it has had an excellent response.

Another area that I want to talk about is on the dairy sales. Under the dairy termination program, the 1985 farm bill, Mexico has purchased 23,000 head. We have exported 4,106 from the New Mexico dairies that participated in the program, for a total amount of $1,800,000. There were times when I was in Roswell three times in 1 week. By Wednesday at noon, I had probably 45 hours, sometimes 2 or 3 days without sleep, but I enjoyed every minute of it.

We shipped cows in production, Senator, from Clovis, NM, to Torreon, Coahuila, which is 1,000 miles in distance, and we were able to send cows which were being milked in Clovis, milked in Juarez, and then milked again in Torreon, Coahuila, without losing a milking. And I challenge anyone in USDA or any other State to perform that feat. We did it.

Senator BINGAMAN. That's impressive. Let me ask on the question I started with, is this just a scratch on the surface? Are there substantial additional opportunities——

Mr. TELLEZ. Yes, sir.

Senator BINGAMAN [continuing]. For the sale of United States products in Mexico which could be developed, in your view?

Mr. TELLEZ. Yes, sir, there is. I was in Chihuahua 2½ weeks ago, 3 weeks ago, making a presentation to the Brangus Breeders Association, inviting them to come to the New Mexico State Fair in September, because the Southwestern Brangus Breeders Association is having their sale on September 24. We will bring the group to El Paso. We will transport them in university vehicles to Albuquerque; take them to the fair. I asked them to bring their passports and their checkbooks. And they will.

We also are entertaining the Hereford Association, because the hereford show is held on September 20. So we'll take one group, bring them back, rest a day, and take the other group the following day.

We have sold breeding bulls from the Albuquerque area. They're looking for top-quality breeding bulls. We shipped three a month ago, but we're just beginning to scratch the surface. These people, Senator, that come from the credit unions, one of them in particular, his oldest son was sent to Texas A. & M. After coming 2 years to Las Cruces, he's going to come in July and bring his No. 2 son to go to New Mexico State University.

Senator BINGAMAN. Let me ask on this other issue that Mr. Thomas referred to, the dropoff in the number of Mexican students coming here to New Mexico State because of the devaluation of the peso and the problems of cost. Could you give me an idea of how many students we had before the devaluation, what range we're talking about, and how many today, just approximately, and what should be done by the Congress or anybody to deal with this problem?

Mr. THOMAS. We're talking about 150 students is all, but many of them are graduate students. They come here with adequate training, in Mexico, for specialized graduate training.

I was visiting with a Chihuahua cattleman not too long ago, and he had three boys here in school. When the peso started going down and down and down, he said, "You know, they can't stay in school." There were two of them majoring in engineering, and we did make arrangements to help them work part time. I think we got all three of them finally through, but there wasn't any way the family could have covered that without the boys working.

We have consistently somewhere around 100 or more students, but those students go back into key positions, particularly those trained in agriculture. Mr. Martin Gonzalez, for example, heads up three research institutes in Mexico, and he started the first range management program for all the uncultivated lands in Mexico.

These people now are in key positions in research, in the universities, and a lot of them went back to business in Mexico. So it's real critical to get that tie. I'm sure Raul runs into a lot of former New Mexico State Univesity students down there. It makes it easier to deal on both sides.

Senator BINGAMAN. Ray, did you have any comments on that?

Mr. SADLER. Let me mention, there are obviously a couple of things that could be done. One thing, of course, could be done at State level. Obviously, for example, if our legislature saw fit at some point to say that students from Chihuahua did not have to pay out-of-State tuition. The State of Texas is doing similar things like that via legislative edict.

As far as efforts that have been made, insofar as the central American initiative and CBI initiative in college scholarships, particularly, there are some obvious kinds of things. There's a crying need particularly, for example, at La Universidad de Chihuahua and the other universities along the border to obtain, as Mr. Thomas indicated, particularly graduate education where you have, for example, an engineering professor who wants to pick up a Ph.D.

They cannot afford to come up here and do it. If out-of-State tuition could be waived, if scholarship funds through USIS and through other U.S. agencies could be obtained, this would be extremely beneficial, not only to our relationship but simply as a good neighbor. And they much prefer to come to, for example, this university and to the border universities. They have good relationships.

Senator BINGAMAN. All right. You've all been very patient. I appreciate it. We're running a little ahead of time, but I think we ought to just stop here. If any of you have additional comments you want to make in writing on any of these issues, or any of you in the audience have comments, we'd be glad to include those in the record of the hearing.

Let me mention, we have another of our county commissioners here, Punkie Garretson is here. We appreciate you coming very much.

Mr. TELLEZ. Senator, can I have one last remark?

Senator BINGAMAN. Yes, surely.

Mr. TELLEZ. One of the things that happened this last week was working with INS to bring in people from the interior of Mexico who have no documentation whatsoever. I want to express to you so you can express to the INS director that his port director here has been excellent. He has cooperated with us.

We are now legally bringing illegal aliens to look at farm equipment so they can buy it and take it back, and this is what transpired. It takes a little time and effort, but with a telex and the proper name and the date of birth and some kind of identification, we are getting 48-hour permits for these people that never had crossed the international line.

I pick them up at the border, on the Santa Fe bridge, and walk them through, literally, help them fill out their papers, because some of them can't even write their name. But they bought two combines this week, and they're on their way to Mexico. I would appreciate it if you would extend our appreciation to the INS people.

Senator BINGAMAN. We saw Mr. Juneau at lunch today. I'll mention that to him.

Mr. TELLEZ. They're doing a fantastic job.

Senator BINGAMAN. Thank you all again. We appreciate it. Thank you all for coming to the hearing.

[Whereupon, at 4:50 p.m., the subcommittee recessed, to reconvene at 1:30 p.m., Saturday, June 13, 1987.]

[The following information was subsequently supplied for the record:]

Coalition for North American Trade
and
Investment

(703) 823-8281
800 247-6849

4012 MOSS PLACE
ALEXANDRIA, VA 22304

TELEX: 6502797900 VIA WUI
FACSIMILE: (703) 370-3269

STATEMENT
OF
CHARLES A. VANIK
WASHINGTON REPRESENTATIVE
COALITION FOR NORTH AMERICAN TRADE AND INVESTMENT

TO THE

SUBCOMMITTEE ON ECONOMIC RESOURCES AND COMPETITIVENESS
JOINT ECONOMIC COMMITTEE
HONORABLE PAUL S. SARBANES, CHAIRMAN

U.S. MEXICO ECONOMIC RELATIONS

UNITED STATES SENATE
WASHINGTON, D.C.

JUNE 12-13, 1987

Mr. Chairman and Members of the Subcommittee:

My name is Charles A. Vanik, counsel to the Washington, D.C. law firm of Squire, Sanders and Dempsey. I am pleased to appear before you today as Washington representative of the Coalition for North American Trade and Investment. I am accompanied by Paul Suplizio, the Coalition's director.

The aim of the Coalition is to support Mexico's maquiladora program, sections 806.3 and 807 of the Tariff Code, and the expansion of mutually beneficial trade and investment among the nations of the North American continent. In the long run, the Coalition envisions the emergence of a free trade area encompassing the United States, Mexico, Canada, the Caribbean, and possibly other Latin countries. A list of members of the Coalition is appended to our statement.

You have asked us to address the impact of the maquiladora program on U.S. trade and jobs, the economic consequences of third-country participation in the maquiladora program, and the role of foreign trade zones in facilitating the border trade with Mexico. Allow me to discuss these points by raising some strategic policy considerations that I hope will commend themselves to those in government in our own country and in Mexico, Japan and other foreign nations.

An Historic Opportunity

Today, an unprecedented horizon of opportunity presents itself throughout Latin America. Because of the severe contraction of economies associated with the debt crisis, currency devaluation, and repressing runaway inflation, physical assets and productive resources in Mexico and other Latin countries are going for bargain basement prices. Too much stress, I believe, is placed on cheap labor as a factor attracting foreign investment to the region. In Mexico and throughout Latin America, productive resources in general are largely undervalued and present valuable investment opportunities to countries that possess the wisdom to capitalize on them.

Since the onset of the debt crisis five years ago, Mexico has depreciated its currency faster than its domestic price level has risen, resulting in greater purchasing power of the dollar in Mexico. In its April Review of the Economic Situation of Mexico, the Banco Nacional de Mexico estimated that depreciation of the peso faster than the rate of inflation had made the dollar 45 percent, the D-mark 56 percent, and the yen 61 percent more valuable in terms of real purchasing power in Mexico during the first few months of this year. If depreciation of the peso is compared to the minimum wage rather than the domestic price level, these margins are even greater -- 70 percent for the dollar, 81 percent for the D-mark, and 86 percent for the yen.

Mexico's policy of allowing foreign investors to obtain local currency at a discount, through debt-equity swaps designed to reduce her $105 billion foreign debt, further extends the purchasing power of hard currencies. The cost of investment in the region has never been lower, the climate for investment never more favorable, and the potential return on investment never greater than at the present moment.

The opportunity for American business is obscured if one makes the debt crisis the sole focus of attention. You would think from the tenor of discussion that Mexico and the rest of Latin America were unsafe places to invest our money. But there's a difference between uncollectible loans made to public entities, and direct private investment in productive facilities that will pay their way in the market. Throughout the period of the Mexican debt crisis, direct investment in maquiladora plants has continued to grow. This is because the climate for private investment was hospitable, and we invested in facilities that would be competitive in world markets.

I'm not denying the reality of the debt crisis or its significant proportions. This has led to fractured growth in

Mexico, and to sharp cutbacks in our exports to the debtor nations. But we should now look beyond this crisis to the opportunities that have been created in its wake. The road out of debt is through private investment and economic growth.

The investments made in Mexico's maquiladora program yielded that country $1.3 billion in foreign exchange last year. This means that Mexico has been able to buy more abroad, which is good for our exports. That's the way to pay your debts.

Today, Mexico and other Latin countries are opening their economies to trade and actively promoting private investment as never before. This is a historic turnabout in traditional policies. The period of readjustment the Mexican economy is going through, as inefficient industries are exposed to market competition and government subsidies are cut back, will be wrenching and painful. We cannot be passive spectators, but should bend ourselves to encourage and assist our neighbor to remain on the path of market-directed and private sector-led economic growth.

What is the significance of this for the United States? I think five conclusions may be drawn.

- First, the opening of the Latin economies in general, and Mexico in particular, to private investment coupled with favorable terms of trade is a historic opportunity that should not be missed. We are in a race with other countries to capitalize on this opportunity. If we don't make the most of it, others will.

- Second, in order to maintain the standard of living of our people while repaying our foreign debt, we've got to improve the productivity and competitiveness of our industry, in other words, produce more and better at less cost. If we can perform part of our industrial process more efficiently by combining our capital and technology with our neighbor's resources and labor, by all means let's do so. It will keep our firms profitable at home and competitive abroad. Those profits and competitive ability are the ultimate source of job security for our workers.

- Third, to those who would condemn foreign investment as exporting American jobs, we say that using foreign labor and resources for some productive processes may actually create more jobs than are lost, because an industry that's competitive will be selling more and earning greater profits, investing more in modern facilities, and buying more from all its suppliers. An industry that's not competitive will either have to find ways to cut costs or go out of business.

- Fourth, you can't invest a deficit. If we're to have the capital to invest abroad, we've got to get our economic house in order and reduce the budget deficit by measures that increase capital formation. Japan has a temporary advantage in this regard, because of her huge capital accumulation of recent years, but America is the big machine and it's still capable of generating large sums for investment.

- Fifth, the U.S. and Mexico should welcome Japanese and other third-country private investment and government loans that will increase jobs and productivity in Mexico and help smooth the transition to a more market-directed economy. By stimulating economic growth and raising the skills of the Mexican labor force, such investment will make Mexico a better customer and supplier, and lead to expanded trade which will benefit both our countries. To the extent Japanese and third-country investment is motivated by desired access to the U.S. market, that access must be premised upon coordination of U.S., Mexican, and third-country trade policies. Such coordination should include reasonable measures to remedy current trade imbalances, avoid overbuilding of productive capacity, and continued progress toward a North American free trade area.

Foreign Direct Investment in Mexico

There are signs that foreign direct investment in Mexico is accelerating due to the Mexican government's official encouragement and the realignment of major foreign currencies -- especially the d-mark and the yen -- relative to the dollar. Realignment has the effect of making foreign producers less competitive, forcing them to raise their prices or accept lower profits. One way of escaping this dilemma is to move productive facilities offshore, to places like Mexico and the Caribbean, with lower costs of production and ready access to the U.S. market.

According to the U.S. Ambassador, Mexico approved $2.3 billion in direct foreign investment projects in 1986, an increase of 24 percent over 1985. An even higher level of approval is expected in 1987. Total authorized foreign investment from all countries (including both in place and approved investment) increased to $17 billion in 1986. The United States share of this rose to more than $10 billion -- up $1.3 billion over 1985.

In the maquiladora sector, more than 1,000 plants were employing over 300,000 workers in 1986. In 1987, the number of plants is expected to increase 20 percent and the number of employees to over 350,000, thus continuing the rapid growth of this industry.

Overall foreign investment in Mexico has moved irregularly in recent years, influenced by the debt crisis in 1982-83 and the collapse of petroleum prices in 1986. Whereas $1.7 billion was invested in 1981, the amount fell to $683 million in 1983, rose again to $1.7 billion in 1985, and fell again to $900 million in 1986 (Table 1). The large volume of approved investment projects ($2.3 billion) clearly signals a new upswing.

The pace of U.S. direct investment in Mexico has varied, ranging from an estimated $210 million to $1.0 billion a year during the 1979-1986 period (Table 1). The U.S. is the largest source of foreign investment, providing anywhere from one-third to three-quarters of new direct investment each year. By the end of 1986, accumulated U.S. direct investment in Mexico was an estimated $9.3 billion -- a nearly 100 percent increase over 1979.

Japan's direct investment in Mexico has ranged from a high of $212 million in 1981 to a low of $3.8 million in 1983 (Table 2). In the most recent year, 1985, $79.3

million was put in place. Japan had accumulated investment in Mexico of nearly $900 million by 1985 -- a 138 percent increase over 1979. According to the Mexican government, 60 percent of Japanese investment is in manufacturing. In 1984, new direct foreign investment by Japan was $10.1 billion worldwide; of this amount, only $35 million was invested in Mexico (Table 3).

Accumulated direct investment in Mexico by all countries stood at $8.4 billion in 1980, rising to $14.6 billion in 1985 -- a 73 percent increase in five years (Tables 4 and 5). The largest investors outside the financial sector (representing mainly Swiss investments in insurance and banking) were the U.S., Germany, and Japan. The U.S. share of total direct investment fell from 69 to 59 percent between 1980 and 1985. Germany's share rose from 8.0 to 9.3 percent. Japan's rose from 5.9 to 6.1 percent.

According to Mexico's Ministry of Commerce, more than 70 percent of accumulated foreign direct investment in 1985 was in manufacturing, 27 percent was in services and commerce, and 0.1 percent was in agriculture.

Looking to the future, there are numerous indicators of resurgent Japanese interest in Mexico and the Caribbean countries due to their low wages and proximity to the U.S. market.

- In March, MITI announced the results of its "Survey of Industry Trends Affected by the Appreciated Yen", with 122 major corporations responding. The survey revealed a "clear indication that a trend amoung Japanese firms to move manufacturing facilities overseas will increase." The manufacture of color televisions and audio products outside Japan is expected to increase by 30% in 1987. Similar trends exist in autos (including both component manufacture and assembly), paper and pulp, and machine tools (JETRO Monitor, April 1, 1987).

- Japanese business delegations have been active throughout the maquiladora area since the beginning of the year, especially in Tijuana, Chihuahua, Ciudad Juarez, and Monterrey.

- In March, Japanese banks created JBA Investment, Inc., a Cayman Islands subsidiary, to purchase the region's medium and long-term debt at a discount, thereby acquiring an ample source of local currency for investment purposes (International Trade Reporter, May 20, 1987, p. 687).

- During his recent visit to Washington, Prime Minister Nakasone promised to make an additional $20 billion available to debtor nations over three years through a combination of untied export credits, increased contributions to multilateral development banks, and loans jointly financed by government and private institutions. This lending is in addition to a previously committed $10 billion to be disbursed by the World Bank, and a further commitment to double official bilateral aid to $8 billion annually by 1990. A good deal of these credits and aid is destined for Latin America and will enahance Japanese commercial interests in the region (Wall Street Journal, May 22, 1987).

- Japan is capable of rapidly expanding its financial commitments overseas. By the end of 1986, Japan held foreign exchange reserves of $42.2 billion and another $85.2 billion in short-term balances in foreign banks. These figures represented a 108 percent increase in official reserves and liquid assets over 1985.

- Examples of recent Japanese investments listed by the Mexican government include a Honda plant in El Salto, Jalisco, costing $40.8 million and creating 1,700 jobs; a debt-equity swap used to increase the capitalization of Nissan Mexicana by $54.4 million; another swap by which Nissan raised its interest in Industrias Nipomex del Centro from 40% to 100%; and a similar transaction in which Komatsu invested $35 million to acquire majority interest in Dina-Komatsu Nacional (DIKONA).

- Illustrative of Japanese interest elsewhere in the region, a government survey mission was sent to Guatemala, Jamaica, Trinidad and Tobago, and the Dominican Republic in February. Caribbean/Central American Action reports a "rising tide of Japanese interest" in the area's economic potential.

While available information concentrates on Japan, because Japan has both the financial means and the strongest incentives for locating production facilities in North America, it is nevertheless clear that similarly strong interests must pervade other countries such as Germany, Korea, and Taiwan. The magnet attracting them to Mexico's maquiladora industry is its incomparable access to the U.S. market. Since direct investment can create redundancy in productive facilities even as it stimulates much-welcome economic growth and high living standards in Mexico, the situation clearly calls for harmonization of U.S., Mexican, and third-country trade policies.

Maquiladoras and U.S. Trade

According to the Department of Commerce, 90 percent of the output of maquiladoras enters the U.S. under Tariff Code items 806.3 and 807. Hence, we can use statistics of trade entered under these items to approximate the volume of maquiladora trade between the U.S. and Mexico. As duty is not paid on the proportion of total value that represents the value of U.S. components, data on the "non-dutiable" proportion of 806.3/807 shipments can be taken to approximately equal the value of U.S. goods shipped to Mexico for assembly or processing. The remainder consists of value-added in Mexico, for which estimates are provided by the Secretariat of Commerce and Industrial Development (SECOFI), plus the value of non-U.S. components.

A portion of the ten percent of maquiladora output that does not enter under 806.3/807 enters duty-free under the Generalized System of Preferences.

Data on 806.3/807 imports from all countries are presented in Table 6 for 1982 and 1985. Such imports totaled $18.3 billion in 1982 and $30.5 billion in 1985 -- a 67 percent increase in three years. This compares to a 42 percent increase in total U.S. imports over the same period. Total 806.3/807 imports have been growing at a 50 percent faster rate than U.S. imports as a whole. If this trend continues, 806.3/807 imports will rise to more than $50 billion by the end of 1988.

Major reasons for this faster rate of growth include increased internationalization of production, utilization of U.S. components in foreign products, expansion of the maquiladora program which permits labor-intensive assembly operations at relatively low cost, and recent restrictions imposed by the U.S. government curbing use of the Generalized System of Preferences. If GSP entry is not available, entry under 806.3/807 is advantageous when the imported product contains a U.S. component.

Total 806.3/807 imports from Mexico increased from $2.8 billion in 1982 to $5.5 billion in 1985 -- a 49 percent increase in three years. Mexico's share of 807 imports in 1985 is shown in Table 7 in relation to the top ten suppliers. On average, 53 percent of 807 imports from Mexico were duty-free, representing the value of U.S. components shipped to Mexico for assembly -- about $3 billion of the $5.5 billion in 807 imports. By contrast, Japan accounted for nearly $11 billion in 807 imports (virtually all of which consisted of motor vehicles), but only 1 percent was duty-free.

The rapid increase in maquiladora output of particular commodity groups during this period is revealed in Table 7. Several sectors, including textiles and apparel, internal combustion engines, office machines, tape recorders, and motor vehicle parts exhibited rapid growth. For many commodities, shipments from maquiladora plants accounted for the bulk of 807 shipments from all sources to the U.S.

The significance of in-bond plants for Mexico's balance of payments is shown in Table 9. Total earnings of $1.3 billion in 1986 represented 20 percent of the $6.4 billion earned on trade, tourisn, in-bond plants, and border transactions. The relationship of maquiladora output to other important exports, especially agricultural products such as coffee, tomatoes, shrimp, cattle, and vegetables, is also shown in the table. U.S. direct investment in the agricultural sector plays an important role in Mexican production and helps ensure both low-cost and seasonably available food supply in the U.S. market. Mexico has become the backup vegetable garden for winter suppliers which are very important to the American consumer.

According to the American Chamber of Commerce of Mexico, of the 1,100 maquiladora plants operating in 1986, 24.6 percent were engaged in assembly of electronic equipment, 10.3 percent in electrical machinery, 14.6 percent in clothing and textiles, 8.6 percent in transportation equipment, 9.8 percent in furniture, 3.2 percent in toys and sporting goods, and 1.5 percent in food processing (Table 10).

The extent to which U.S. imports of maquiladora products find their way into U.S. exports of finished goods is not known, but the amount is believed to be significant. For example, U.S. high technology exports comprise about 30 percent of U.S. manufactured exports, according to the Joint Economic Committee. Nearly 25 percent of maquiladora plants are engaged in the production of electronic components, and it is certain that some of this production enters into U.S. goods sold abroad. The same is probably true for apparel and transportation equipment, but here again the amount in unknown.

Impact of Maquiladoras on U.S. Employment

In their study of The U.S. Trade Position in High Technology: 1980-1986, William Finan, Perry Quick and Karen Sandberg state:

> "One way U.S.-based high-tech firms have responded to the deteriorating competitiveness of the U.S. as a place for production and engineering has been to relocate facilities to, and to outsource from, low-labor-cost countries....We must draw a distinction between the comparative advantage of the U.S. as a geographic place of production and the competitiveness of U.S.-based firms in a global context."

Our nation has only limited capital resources. It can't afford to sink them into facilities that can't compete. We prefer that business invest in modern plants at home and gain cost-competitiveness through high productivity. But for some forms of production, even the most modern plants won't be able to match foreign costs.

Americans aren't unfamiliar with this process; we've watched it proceed domestically for a hundred years. When the textile industry migrated south to stay competitive, the regions that gained and lost were entirely within our borders. Today the process is the same, only the location of investment is more often abroad.

Consider the way a microcomputer is produced in the U.S. today. Various printed circuit board assemblies, connectors, power supply, disk drive, axial fan assembly and cables are installed into a metal chassis to produce the central processing unit. Low-skill jobs involved in producing the different components may be lost to a foreign country. But the high-skill jobs of component design and assembly are retained in the U.S., and if the firm is successful these jobs are apt to multiply.

A competitive firm is a growing firm that's a better customer for its suppliers. It's able to undertake research and development, bring new products to market, and invest in the latest production technology. These processes can generate new jobs as well as the high value-added products that obtain the best terms of trade internationally.

We should not only be asking, "What's the impact of the maquiladora program on U.S. jobs?", but "What kind of jobs do we want to keep in this country to sustain a rising standard of living?" The key to an abundance of high-wage jobs is to maintain technological leadership, develop the best-educated work force, and invest worldwide to stay competitive.

I know there are many members of Congress that have grave concerns about how the maquiladora program impacts their community. No one likes to see a plant shut down and a community stricken. As a former chairman of the Trade Subcommittee of the Ways and Means Committee, I held several field hearings both north and south of the border on this issue. I became convinced that these programs are as good for the U.S. as they are for Mexico.

More recently, I've been working with many American corporations, quite a few of whom are from the rust-bowl states of the midwest. I am astonished how many of these industries are kept alive because they can carry on some of their production at the border. One comglomerate with over 150 plants in America advised me that without the 20 percent of production carried on in maquiladoras, the 80 percent in America could not be sustained.

A substantial portion of Mexico's earnings, estimated by the ITC at 40-60 percent, are spent on the American side of the border. According to the Banco de Mexico, in 1986 Mexican citizens spent $1.5 billion on the U.S. side of the border, while Americans spent $1.2 billion on the Mexican side, yielding us a surplus of $300 million on border transactions (Table 9) notwithstanding deep depreciation of the peso. The ITC found that in 1984, total wages, salaries and benefits for maquiladoras was $544 million, compared to total value added of $1 billion. In the same year, Mexican spending in the U.S. border area was $1.5 billion.

The International Trade Commission is currently attempting to quantify the employment effects of the 806.3/807 program. One of these effects would be the additional jobs lost to foreign competition in the absence of the program. How many of the 75,000 jobs producing components for the maquiladoras would still be around? Another effect would be the direct reduction of employment by outsourcing assembly work to maquiladoras and similar plants. Another consists of the jobs created by foreign purchases of U.S.-made components to obtain the duty saving when finished products containing those components are exported back to the U.S. Another is the additional jobs created in the Southwest associated with transporting and serving the increased border trade. Lastly are the indirect income effects of each of the above.

In their research into the maquiladoras operating in Baja California, Norris Clement and Stephen Jenner found that 57 percent of the firms surveyed reported no decrease in U.S. employment, while 43 percent reported they had reduced U.S. employment as a result of maquiladora operations. Their report was published in January, 1987.

In his 1985 research into the number of suppliers supporting the maquiladora industry located in Juarez, Mexico, William L. Mitchell found that 5,714 suppliers employing a total of 108,575 workers were involved in such support.

The Department of Commerce estimates that 75,000 Americans were employed producing maquiladora components in 1985.

In research reported in 1987, based upon questionnaire survey results from 140 respondents out of 900 maquiladora companies, Professor Donald Michi found that approximately 800,000 U.S. jobs in parent plants, direct customers, and major suppliers were directly dependent on a reliable supply of material or components from maquiladora plants.

U.S. Should Take the Lead in Harmonizing Trade Policies With Respect to the Maquiladora System

The maquiladora system is essentially a reciprocal extension of trade preferences between the United States and Mexico. U.S. investment in, and exports to , in-bond plants are granted liberal treatment on condition that the products of those plants are exported. In return, the U.S. grants such exports liberal access to the U.S. market under items 806.3/807 of the Tariff Schedules, and in some cases under the GSP.

The U.S. has a longstanding strategic interest in the evolution of a Common Market between our two countries. This interest was reiterated only last month in a speech by U.S. Ambassador Pilliod, who called the prospect "a distinct possibility".

The trade regime created by the maquiladora and 806.3/807 programs may be considered a preferential trading system between our two countries, a kind of free trade area in which products are jointly produced from U.S. components and Mexican labor. This excellent beginning gives the U.S. and Mexican governments a base from which other economic activities may be drawn into the free trade relationship as conditions evolve.

With respect to third-country investment in maquiladoras, both the U.S. and Mexico should welcome this prospect which will transfer technology, spur economic growth, and raise the living standards of the Mexican people. It should be recognized, however, that most third-country investment is made with an eye to access to the U.S. market. Indeed, Mexico's regulations make it so. In the case of the $40 million Honda investment cited earler, the conditions that the National Commission of Foreign Investment placed on Honda were that it should:

- contribute the latest technology relative to the U.S. market;
- create over 1,700 jobs;
- create exports totaling at least $100 million for the period 1986-1992; and
- maintain a positive balance of payments.

Foreign investment regulations containing such "export performance requirements" are obviously unfair, and are considered so by the U.S. government, which brought a Section 301 complaint against Taiwan last year in a similar case involving the export of autos. Under such rules, Mexico could reap the benefits of a large influx of foreign capital while exporting unemployment to the U.S. and creating redundant productive facilities in the maquiladoras and this country. Such behavior would be inconsistent with the current maquiladora/806.3-807 preferential trade arrangement, the essence of which is that the firms of each country are to receive preference over others. Section 307 of the Trade and Tariff Act of 1984 requires the United States Trade Representative to seek, through consultations and negotiations, the reduction and elimination of export performance requirements that adversely affect the economic interests of the United States.

No country has a right of entry, on a preferential basis, to the U.S. market. The U.S. and Mexico may reciprocally grant preferential treatment to each other's products. Mexico may also extend preferential treatment in her own markets to third countries. Under the maquiladora system, she allows both capital goods and components to enter her territory duty free. But Mexico may not unilaterally grant such preferential treatment to the imports of third countries with a requirement that they be exported to the U.S. market.

Any solution to this problem should contribute to, and not hinder, the resolution of current trade policy conflicts. In the case of Japan, conflicts extend to such matters as restructuring her economy to admit more imports, absorbing more manufactured products from less developed countries (Japan absorbs 7% of LDC manufactured exports compared to 62% for the U.S.), and putting an end to export targeting. Allowing Japanese components to be processed in

Mexican maquiladoras, stamped "Made in Mexico", and exported to the U.S. while these problems continue, would not be conducive to working out our differences.

According to a report from the American Consul in Tijuana, citing information provided by Professor Stephen Jenner, existing Japanese in-bond plants purchase most of their components from Asian sources, using 75 to 80 percent Asian sources and 20 percent U.S. components. In one large electronics plant, only 10 percent of components are from the U.S. Elsewhere (Business Mexico, March 1987), Professor Jenner has written of "a continuing migration to Mexico of more and more suppliers, not only from Japan, but also Korea, Taiwan, and other Asian countries." So it is likely that Pacific rim firms will establish their own supply network in Mexico. Goods could then be shipped to the U.S. with minimum Mexican/U.S. content.

Our conclusion is that, in order to permit Japanese investment in Mexican maquiladoras to go forward, and allow the exports of their plants to enter the U.S. market, while leaving the door open to possible restraints if export targeting, redundancy, and similar problems are not resolved, the U.S. should consider announcing that it will not recognize such exports as a product of the "Maquiladora Free Trade Area" unless they contain at least 60 percent

North American (U.S./Mexico) content. Such a rule of preference would cover both value of materials and direct cost of processing.

The 60 percent rule of preference would apply to products of third countries whose plants were set up in Mexico on a preferential basis (i.e., under the maquiladora program, where no duties are paid on imports of either capital goods or component parts, and export performance requirements are imposed). The rule would not apply to products of U.S. firms participating in maquiladoras, even if the bulk of their components were procured in third countries and assembled in Mexico with minimum value added, because the output of U.S. firms would continue to have the same preferential access to our market as they now do, and as they would under an eventual U.S.-Mexico free trade area.

The object of the Coalition's suggestion, which is offered as a basis for discussion, is to anticipate and prevent future trade difficulties with our trading partners by virtue of their maquiladora investments and Mexico's export performance requirements, which could divert the bulk of the output of their plants to the U.S. market. Many members of Congress have deep reservations about allowing such "back-door" entry to the U.S. market without adequate safeguards. Unless we anticipate and deal with these problems in the context of the future development of the trade regime with Mexico, the entire maquiladora program could be endangered and Mexico could stand to lose much-needed foreign direct investment.

We would like to prevent these problems from arising by some constructive resolution of the competing interests of the trading partners concerned. We are by no means wedded to the North American content rule we have suggested as a basis for raising the issues and addressing them constructively.

If the 60 percent content requirement were not met, the product could still enter the U.S. in the ordinary manner available to MFN nations, bearing the country of origin indicated by the substantial transformation rule when applied to the third-country components. Thus, the product would enter as a product of Japan, Korea, or Taiwan, and not the U.S. or Mexico. The product would still be eligible for 806.3/807 tariff treatment as at present, based on the value of U.S. components.

This approach would prevent pass-through operations, with minimum Mexican value-added, from conferring Mexican origin and eligibility for preferential treatment. It would still allow the product to enter with MFN treatment, but as a Japanese or other third-country export. If U.S. trade policy should require action against that country's exports under the trade remedy laws, such as Sections 201, 301, 337, or the antidumping or countervailing duty provisions, these maquiladora exports would be included in the universe of exports potentially subject to restraint.

This approach would also harmonize with the eventual emergence of a Free Trade Area betwen the U.S. and Mexico enlarged beyond the present Maquiladora System. In such circumstances, a content requirement would likely be used as a rule of preference to confine the benefits of the F.T.A. to the participating countries. Such requirements exist, for example, in the U.S.-Israel F.T.A. agreement, and the U.S.-Canada automotive pact. In its comments to the ITC on the origin rule for the proposed U.S.-Canada free trade area, one large Japanese concern, Mitsubishi stated its willingness to accept a 50 percent North American content requirement. A similar North American content requirement would anticipate, and could be readily adapted to, a U.S.-Mexico Free Trade agreement.

Maquiladoras and Foreign Trade Zones

A Foreign Trade Zone is a special enclosed area within or adjacent to a port of entry, into which goods may be imported without being subject to duty or quotas because FTZ's are considered to be outside the Customs territory of the United States. Formal entry is made and duties paid when goods leave the zone and are imported into the U.S. Customs territory.

Established by the Foreign Trade Zone Act of 1934, the original purpose of FTZ's was to facilitate exports, but this was gradually changed by law and regulation to allow goods to be manufactured in the zones (1950), permit subzones for manufacturing or assembly operations (1952), and calculate duty only on the value of foreign components (1980). Today, more than 80 percent of the products leaving zones enter domestic commerce.

With certain exceptions, any foreign or domestic merchandise may be brought into an FTZ for storage, sale, exhibition, breaking up, repacking, mixing with foreign or domestic merchandise, distribution, assembly, manufacturing, or other processing.

Every officially designated port of entry is entitled to at least one FTZ, called a general purpose zone. They generally have multiple users and are employed for warehousing and distribution. A subzone is technically a part of a general purpose zone, but is located at the plant site of a single user.

Subzones permit manufacture or assembly of finished products, using imported components or materials that enter the zone duty-free. When the final product leaves the zone, the manufacturer has a choice of paying duty on the finished article or on the input materials. An "inverted tariff", i.e., a higher duty for input materials than for finished goods, commonly occurs and is in part responsible for recent growth in zone-based manufacturing and assembly operations. Zone manufacturing accounts for two-thirds of the total value of shipments from all zones, according to an ITC investigation in 1984. More than 90 percent of this manufacturing takes place in subzones, and involves production of machinery, transportation equipment, and electronic products. The largest subzone user is the auto industry, and motor vehicles accounted for 61 percent of all subzone shipments in 1982.

The advantages conferred by subzone operations have sometimes provoked opposition from domestic producers and labor unions. In a well-known case, the inverted tariff for color televisions (imported picture tubes pay 15 percent duty, while finished receivers pay 5 percent) led to a congressional confrontation over whether subzone status would result in circumvention of the tariff schedules. The trade bill passed recently by the House resolves the matter in favor of the domestic industry.

Altogether, four industries -- iron and steel, electronic components, textiles, and bicycles -- have opposed zone applications for manufacturing or assembly operations, according to a 1984 study by GAO. Since then another industry, auto parts, has come out in opposition to FTZ's. The co-chairman of the Congressional Auto Parts Caucus was prepared to introduce an amendment, during Ways and Means Committee consideration of the trade bill, that would have drastically restricted FTZ operations. The amendment was withdrawn in favor of future hearings and an International Trade Commission investigation of the issue.

The arguments used against FTZ's are that they promote imports and loss of jobs, and confer economic benefits which permit zone users to gain an unfair competitive advantage over firms not located in zones. Opponents call for a prohibition or limit on zone manufacturing, restricting zone benefits to products for export only, and reducing the number of subzones.

The arguments in favor of FTZ's are that they stimulate economic activity, serve to integrate domestic and foreign commerce, and simplify the warehousing, distribution, and processing of components sourced abroad that are combined with domestic components into final products. Proponents say that zones attract new investment, create a market for

U.S.-made components and materials, and generate new jobs.

The ITC investigation in 1984 found that:

> "In some industries, firms have increasingly opted for zone status in an effort to reduce costs and become more competitive with domestic and foreign firms. This point is perhaps most clearly evident in the automobile industry, where more and more manufacturers (both U.S. and foreign) have sought zone status in recent years. These producers see in zones a mechanism...to reduce costs on imported components. Although the savings resulting from zone operations may not be substantial, firms, particularly those involved in manufacturing, view FTZ's as a means of reducing unit costs."

The 1986 ITC investigation of U.S.-Mexico trade and Southwest Border development identified nine FTZ's in the border area, six of which, all in Texas, were located at border ports of entry. The Commission found that, thus far, zone operations appear to have focused on storage and distribution rather than manufacturing. None of the border FTZ's currently sponsors a subzone.

The Commission found that, while 14 border ports of entry are eligible for FTZ's, most of these are located in isolated rural areas with very small populations and little cross-border trade. ITC concluded that, of the five border ports of entry in California, San Diego, Calexico, and San Ysidro are the most promising because of their proximity to large concentrations of maquiladora plants. The Commission expressed the view that "The success of any new zones and their contribution to economic activity and job creation will be dependent upon....the maquiladoras and the utilization of the provisions of TSUS items 806.3 and 807....Rapid growth experienced by El Paso and Brownsville in 1983 and 1984 in conjunction with the rapid growth of McAllen in earlier years underline the dynamic nature of the program."

Equally advantageous for border FTZ's is their proximity to Mexico and consequent reduction in shipping costs from maquiladora plants to zone facilities where final inspection, testing, packaging, sorting, inventory control, and distribution can take place.

The principal products imported from Mexico through FTZ's are television parts, electronic signaling devices, electronic tubes, motor-vehicle bodies and parts, gold, and nonalcoholic beverages. In 1983 and 1984, Mexico was the leading country of origin of products entering through FTZ's. Japan and Taiwan are also important sources.

McAllen, Texas illustrates the operation of a border

FTZ. According to the 1986 ITC investigation, one of the most active zone users of the McAllen FTZ is a major U.S. television manufacturer who occupies a building in the zone and has facilities in Reynosa, Mexico, adjacent to McAllen, where it assembles television set components and employs about 10,000 workers. Much of the merchandise of foreign origin received at McAllen consists of television parts which are forwarded to Mexico for processing in twin plant facilities before returning to the zone for export or entry into the U.S.

Note that, under the maquiladora program, foreign materials could be shipped directly to twin plants without payment of duty. The McAllen FTZ permits such components to be brought into the U.S., similarly without payment of duty, where they can be sorted, tested, etc. and subsequently shipped to Reynosa. Then they are returned to McAllen FTZ as part of a finished assembly -- again without payment of duty. Such a system greatly facilitates international trade.

The great advantages of an FTZ consist not only of the benefits provided the user, but their incomparable flexibility as vehicles of international trade and ability to respond to the varying needs of commerce at the moment. This was the conclusion of the International Trade

Commission.

Clearly, border FTZ's are capable of playing a significant role as part of the U.S.-Mexico trading system developing in conjunction with maquiladora assembly operations utilizing both U.S. and foreign-sourced components.

We support continued utilization of FTZ's as part of the trade infrastructure of the Southwest Border, under continued congressional oversight to guard against abuses.

Conclusion

We have a unique, important strategic interest in Mexico. Our nations are bound together by a common boundary and a common heritage, and our economies are interwoven. We are becoming increasingly interdependent, to the point that we may one day have a common market.

The integrity, stability and prosperity of Mexico are as important to America as to Mexico itself. For reasons of national security, the continued success of democracy and free enterprise in Mexico require the maintenance of high employment and prosperity in that nation, even if this entails some cost to ourselves. We may thus continue to enjoy an undefended border and unfettered commercial interchange of our labor, our talents, and our hopes.

Gentlemen, this concludes my statement. Are there any questions?

Table 1

New Direct Foreign Investment in Mexico
Total and for U.S., 1979-1986
(Millions of Dollars)

Year	Total New D.F.I.	U.S. Accumulated D.F.I.	U.S. New D.F.I.	U.S. as Percent of Total New D.F.I
1979	810.0	4758.0	599.9	74%
1980	1622.6	5836.6	1078.6	66%
1981	1701.1	6908.7	1072.1	63%
1982	626.5	7119.0	210.3	34%
1983	683.7	7340.9	221.9	33%
1984	1429.8	7997.9	657.0	46%
1985	1729.0	8748.1	750.2	43%
1986 (est)	900.0*	9317.3	569.2	63%

*Out of $2.3 billion approved by the Mexican government

SOURCE: General Direction for Foreign Investment; U.S. Embassy cable 05932, 28 March 1987; and Speech of U.S. Ambassador Pilliod to American Chamber of Commerce of Mexico, May 1987.

TABLE 2

EVOLUTION OF JAPANESE INVESTMENT IN MEXICO
(MILLION OF DOLLARS)

YEAR	ACCUMULATED INVESTMENT	NEW INVESTMENT	TOTAL VALUE OF D.F.I.	PARTICIPATION PERCENTAGE
1951-1973	65.4		3,339.4	1.5
1974	70.8	5.4	3,659.3	1.5
1975	100.3	29.5	5,016.7	2.0
1976	106.3	6.0	5,315.8	2.0
1977	237.0	130.7	5,642.9	4.2
1978	289.2	52.2	6,026.2	4.8
1979	376.0	86.8	6,836.2	5.3
1980	499.1	123.1	8,458.8	5.9
1981	711.2	212.1	10,159.9	7.0
1982	776.4	65.4	10,786.4	7.2
1983	780.4	3.8	11,470.1	6.8
1984	816.0	35.6	12,899.9	6.3
1985	895.3	79.3	14,628.9	6.1

SOURCE: FOREIGN INVESTMENT GENERAL DIRECTION

TABLE 3

JAPANESE DIRECT FOREIGN INVESTMENT
(1951-1984)

YEAR	NO. OF CASES	QUANTITY (MILLION DOLLARS)
1951-1971	4,637	4,435
1972	1,774	2,338
1973	3,093	3,493
1974	1,912	2,395
1975	1,591	3,280
1976	1,652	3,462
1977	1,761	2,806
1978	2,393	4,598
1979	2,694	4,995
1980	2,442	4,693
1981	2,563	8,931
1982	2,548	7,703
1983	2,754	8,145
1984	2,499	10,155
TOTAL	34,313	71,431

SOURCE: MINISTRY OF FINANCE OF JAPAN.

TABLE 4

Mexico: Origin of foreign direct investment, 1980

Country	Amount	Percent of total	Percentage change, 1980 over 1979
	Million dollars		
United States	5,836.6	69.0	22.67
Federal Republic of Germany	676.7	8.0	33.76
Japan	499.1	5.9	32.73
Switzerland	473.7	5.6	30.74
United Kingdom	253.7	3.0	23.74
Spain	203.0	2.4	65.04
Sweden	126.9	1.5	9.39
Canada	126.9	1.5	15.99
France	101.5	1.2	23.78
Holland/Belguim	93.0	1.1	4.61
Italy	25.4	0.3	-53.67
All other	42.3	0.5	-22.67
Total	8,458.8	100.0	

Source: Commission for Foreign Investment and Technology Transfer.

Table 5

Mexico: Origin of Foreign Direct Investment, 1985

Country	Amount (Million Dollars)	Percent of Total	Percentage Change 1985 Over 1980
United States	8,748.1	59.8	49.88
Switzerland	1,448.3	9.9	205.74
Germany	1,360.5	9.3	101.05
Japan	895.3	6.1	79.38
Canada	409.6	2.8	222.77
U.K.	395.0	2.7	55.70
Sweden	351.1	2.4	176.67
Liechtenstein	204.8	1.4	
Bermuda	190.2	1.3	
Spain	131.7	0.9	.35
Others	497.2	3.4	
TOTAL	14,628.9	100.0	

Source: General Direction ofr Foreign Investment, and U.S. Embassy Cable 05932, 28 March 1987.

TABLE 6

U.S. imports under TSUS items 806.30 and 807.00 and total imports, 1982 and 1985

Item	1982	1985	Share of total 1982	Share of total 1985	Change, 1985 from 1982
	Million dollars		Percent		
Imports under item 806.30:					
Total	358.0	419.7	100.0	100.0	17.2
Dutiable	116.0	144.6	32.4	34.5	24.7
Nondutiable	242.0	275.0	67.6	65.5	13.6
Imports under item 807.00:					
Total	17,950.8	30,115.4	100.0	100.0	67.8
Dutiable	13,473.2	24,565.7	75.1	81.6	82.3
Nondutiable	4,477.5	5,549.7	24.9	18.4	23.9
Imports under items 806.30 and 807.00:					
Total	18,308.8	30,535.1	100.0	100.0	66.7
Dutiable	13,589.2	24,710.3	74.2	80.9	81.8
Nondutiable	4,719.5	5,824.7	25.8	19.1	23.4
Total U.S. imports	242,340.0	343,553.2	100.0	100.0	41.8

Note: Because of rounding, figures may not add to the totals shown.

Source: Compiled from official statistics of the U.S. Department of Commerce.

TABLE 7

U.S. imports for consumption under TSUS item 807.00, by principal sources and principal items, 1985

	Total 807.00 imports		Principal products		
Source	Value	Percent duty free	Item	Value	Percent of total
	1,000 dollars			1,000 dollars	
Japan	10,990,024	1	Motor vehicles	10,444,992	95
Mexico	5,536,719	53	Internal combustion engines, piston-type	616,718	11
			Electrical conductors	589,399	11
			Motor vehicles	495,769	9
			Tape recorders and players	370,237	7
			Motor-vehicle parts	306,310	6
			Articles for making and breaking electrical circuits	294,364	5
			Motors, generators, and miscellaneous equipment	286,889	5
			Office machines and parts	270,481	5
			Television apparatus and parts	259,027	5
			Radio receivers, transceivers, and parts	222,018	4
West Germany	4,657,135	2	Motor vehicles	4,386,943	94
Canada	1,926,770	30	Office machines and parts	461,835	24
			Semiconductors	203,409	11
			Mechanical shovels, etc.	159,941	8
			Telephone and telegraph apparatus	81,862	4
			Machines for working metal, stone, and other materials	81,598	4
Sweden	1,143,438	3	Motor vehicles	1,073,874	94
Singapore	995,450	19	Office machines and parts	568,368	57
			Semiconductors	99,520	10
			Radio receivers, transceivers, and parts	94,529	9
United Kingdom	658,857	11	Motor vehicles	434,308	66
Taiwan	518,145	19	Office machines and parts	122,118	24
			Electrical conductors	69,055	13
			Television apparatus and parts	68,555	13
			Semiconductors	65,713	13
			Pleasure boats and floating structures	57,160	11
Malaysia	427,229	51	Semiconductors	309,532	73
			Radio receivers, transceivers, and parts	48,491	11
France	401,475	13	Motor-vehicle parts	196,964	49
			Motor vehicles	89,803	22
			Nonmilitary airplanes	77,493	19

Source: Compiled from official statistics of the U.S. Department of Commerce.

TABLE 8

Imports from Mexico Under TSUS Item 807 for Selected Commodity Groups, 1982-1985

	Value (Millions of Dollars)		Share of Total[1] (Percent)	Percentage Change
	1982	1985	1985	1982-1985
Textiles, Apparel, and footwear	207.4	377.5	32	82
Internal combustion engines, piston-type	176.7	616.7	65	249
Office machines and parts thereof	119.9	270.5	15	126
Motors and generators		286.9	79	
Electric household appliances		55.8	34.7	
Telephone and radio apparatus		62.0	37	
Television receivers		163.0	58.7	
Television apparatus and parts		259.6	67.7	
Radio receivers and parts		222.0	43.3	
Tape recorders and players	38.0	370.2	86.2	874
Electrical capacitors	73.3	89.2	76.5	21.6
Electrical switches		294.4	75.4	
Certain motor vehicle parts & misc. vehicles	122.1	305.3	34.4	150
Motor vehicles		495.8	2.9	
Electrical conductors		589.4	83.8	
Miscellaneous manufactures		367.8	45.4	

[1] Share of total 807 imports of the commodity group from all countries

SOURCE: International Trade Commission

TABLE 9

REVENUES AND EXPENDITURES, FROM FOREIGN SECTOR, 1986
(Millions of dollars)

	Revenues	Expenditures	Balance
Tourism	1,787.0	620.0	+1,167.0
Border-area transactions	1,192.0	1,512.0	–320.0
In-bond plants	1,305.0	—	+1,305.0
Foreign trade	15,775.0	11,509.0	+4,266.0
Total	20,059.0	13,641.0	+6,418.0

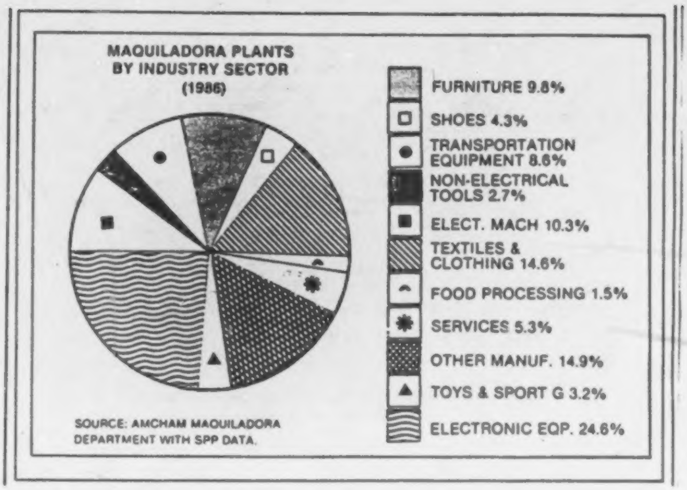
SOURCE: Banco de México, preliminary figures.

TOP TWENTY-FIVE MEXICAN EXPORT PRODUCTS
(Thousand of dollers)

	1986	1985
Crude	5.531,465	13.308,776
Car motors	1.168,418	1.039,729
Green coffee	822,830	480,978
Tomatoes	423,723	198,150
Car parts	374,469	240,743
Frozen shrimp	360,618	328,121
Silver bars	308,102	281,795
Bovine cattle	258,573	143,247
Iron and steel products	215,470	100,102
Gas-oil	211,472	216,132
Cars	205,683	116,637
Vegetables and fresh fruits	203,202	145,529
Glass and glass products	179,015	153,116
Unfinished copper	161,972	148,338
Fuel-oil	152,950	214,373
Artificial or synthetic textile fibers	152,306	85,884
Polycarboxylic acids	143,684	148,987
Sulphur	134,857	113,037
Iron bars and ingots	125,207	38,177
Beer	117,009	65,517
Hydraulic cement	116,132	88,763
Radio and TV parts	106,506	44,008
Machine parts	95,227	101,558
Data processing equipment	93,806	69,704
Plastic materials and synthetic resins	88,359	63,924

SOURCE: Banamex, Department of Economic Research. Based on data supplied by the Banco de México.

Table 10



SOURCE: AMCHAM MAQUILADORA DEPARTMENT WITH SPP DATA.

Table 11

Mexico: Summary balance of payments, 1979-85

(In millions of dollars)

Year	Merchandise (FOB) Exports	Merchandise (FOB) Imports	Trade balance	Services (net)	Current account balance 1/	Capital account 2/	Use of reserves 3/ 4/
1979.....	9,301	-12,131	-2,830	-2,854	-5,684	5,345	-315
1980.....	16,066	-18,896	-2,830	-5,607	-8,437	13,165	-958
1981.....	19,938	-24,037	-4,099	-10,089	-14,188	23,497	-1,075
1982.....	21,230	-14,435	6,795	-13,309	-6,514	8,259	3,573
1983.....	22,312	-8,550	13,762	-8,645	5,117	-2,009	-2,033
1984.....	24,196	-11,255	12,941	-9,112	3,829	-665	-2,151
1985.....	21,867	-13,460	8,407	-8,317	90	-1,404	2,731

1/ Current account excludes net transfers.

2/ Capital account includes net transfers and liabilities constituting foreign authorities' reserves.

3/ Settlements basis (not reflecting counterpart items).

4/ (-) denotes increase in reserves.

Source: IMF, International Financial Statistics.

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UNITED STATES-MEXICO ECONOMIC RELATIONS

ECONOMIC RELATIONS AND THEIR EFFECT ON THE NEW MEXICO ECONOMY

SATURDAY, JUNE 13, 1987

Congress of the United States,
Subcommittee on Economic Resources
and Competitiveness
of the Joint Economic Committee,
Washington, DC.

The subcommittee met, pursuant to recess, at 1:30 p.m., in the Albuquerque Convention Center, Albuquerque, NM, Hon. Jeff Bingaman (member of the subcommittee) presiding.

Present: Senator Bingaman.

Also present: Kenan Jarboe, legislative assistant to Senator Bingaman.

OPENING STATEMENT OF SENATOR BINGAMAN, PRESIDING

Senator **Bingaman**. The subcommittee will come to order. Let me welcome everybody here today. This is a hearing of the Joint Economic Committee. It is one of a series we hope to have on the changing world economy. This particular hearing is part of 2 days of hearings that we're having in New Mexico on United States-Mexican economic relations. The specific topic of today's hearing is the prospects for a United States-Mexico trade agreement and the effect of such an agreement on expanded trade between Mexico and New Mexico.

United States-Mexican economic relations exemplify, in many ways, the nature of the changing world economy in which we find ourselves. The United States is Mexico's largest trading partner, covering about 60 percent of Mexico's trade. Mexico is the United States fourth largest trading partner behind Canada, Japan, West Germany, and closely tied with Great Britain. Yet, the United States and Mexico have not had a Treaty of Friendship, Commerce, and Navigation since 1950.

This lack of a trade agreement is even more important given the changing nature of the Mexican economy. As we heard at the hearing yesterday in Las Cruces, Mexico's exports to the United States have shifted away from agriculture and petroleum to chemicals and the manufactured goods.

This change in the Mexican economy clearly means changes in the United States relationship with Mexico. Yesterday the subcommittee heard testimony about the maquiladora program, whereby, companies, U.S. companies primarily, set up plants in Mexico for manufacture of products from U.S. components for reexport back into the United States. These plants are not able to sell their products in the Mexican market except in limited circumstances. Mexico maintains tight controls over their imports through high tariffs, quotas, and licensing and ownership restrictions. While the Mexican Government has liberalized trade recently, including acceeding to the provisions of the General Agreement on Tariffs and Trade, I, and I'm sure many of you, remain concerned. I hope that our first two witnesses will address the question as to whether ongoing trade negotiations will be effective in opening up Mexico's markets to U.S. producers.

Changing United States-Mexico economic relations means increased opportunities here in New Mexico. The second panel that we have today will more specifically address this issue. New Mexico has a long history of commerce with Mexico predating even the creation of the United States, and I hope this distinguished history is about to add a new and prosperous chapter.

Our witnesses today include Robert Herzstein, distinguished international lawyer and cochair of the Trade Subcommittee of the Mexico-United States Business Committee, which is the oldest United States-Mexican business organization. Also with us today is Melissa Coyle, who is the Director of the Mexico Division of the International Trade Administration. The second panel consists of Salvador Gonzalez Barney representing the New Mexico Trade Office of the Department of Economic Development and Tourism; Ron Lohrding, program director for energy and technology at Los Alamos National Laboratory; Roberto Castillo, foreign trade consultant to the Vaughn Co. and chairman of the International Trade Committee of the Albuquerque Hispano Chamber of Commerce; Joe Zanetti who's president of the International Trade and Investment Council and president of the International Trade Committee of the Greater Albuquerque Chamber of Commerce.

Let me, before we turn to the witnesses, just express my particular appreciation to the Albuquerque Hispano Chamber for the work they did in organizing this hearing and bringing together all of the witnesses. They took the initiative in urging me to persuade the Joint Economic Committee to go forward with this hearing. I think this is a sign of their leadership in economic issues affecting the communities.

We just had an excellent discussion by Bob Herzstein at our lunch down the hall around the corner, which many of you attended. Why don't we give him just a slight break and ask Melissa if she will please testify today as the first witness. She is the Director of the Mexico Division of the International Trade Administration. As I understand it, she is on her way to Mexico City for an official visit after she leaves us today. We're honored to have her here in New Mexico and we look forward to hearing from her.

STATEMENT OF MELISSA COYLE, DIRECTOR, MEXICO DIVISION, INTERNATIONAL TRADE ADMINISTRATION, DEPARTMENT OF COMMERCE

Ms. COYLE. Thank you Senator. Thank you for having these hearings today and providing the Department of Commerce the opportunity to appear. As you said, I am from the Department of Commerce, but today I do speak on behalf of the administration and the remarks do convey the interests of a number of executive branch agencies, so I suggest that this does represent a coordinated set of views in Washington.

Senator BINGAMAN. That's a rare thing to find.

Ms. COYLE. I guess I left myself open for that. I did want to summarize my prepared statement. The statement contains a number of sets of information about the steps that Mexico is taking to open up its economy to international trade and I submit those to the subcommittee for their information in the future as they look at Mexico more closely.

In my oral remarks I would like to summarize the evolution of the bilateral framework agreement with Mexico, give a short status report on the present negotiations on the agreement, and highlight a few observations about how the agreement might benefit the commerce of the border region as well as New Mexico in particular.

First, a little information on the evolution of the framework agreement. Before Mexico joined GATT on August 24, 1986, no formal mechanism, other than the April 1985, bilateral understanding regarding subsidies countervailing duties, existed between the two nations because Mexico had abrogated the reciprocal trade agreement that did exist in 1950. As a result, most contacts between the two governments on trade and investment issues was usually ad hoc, crisis oriented, and often prone to misunderstanding.

Although each country extended to the other most-favored-nation treatment and other benefits, no formal basis existed for this relationship. Consequently, there was no true security of access for either country's exporters or investors. After the decision in March 1980 by Mexico to reject entry into the GATT, there was much thinking within the U.S. Government about how to set up a closer relationship with Mexico to discuss problems and to seek resolution of trade issues. This internal reflection was matched by analysis carried out by the Mexico-United States Business Committee, which Mr. Herzstein represents today. And that committee has worked energetically over several years with both Governments to develop and promote the idea of a bilateral agreement with Mexico since the early 1980's.

The first concrete result of this desire within the U.S. Government to create a closer relationship with Mexico was the formation in 1981 of a group between the governments called the Joint Committee on Commerce and Trade. This committee met a number of times betweey 1981 and 1983 and there was some discussion in that group of creating a bilateral consultation and notification process. However, the agreement was not negotiated between the two governments and the JCCT did not function for very long as a working group, so we fell into a lack of regular discussions. In June of 1983, the Mexico-United States Business Committee, the oldest binational business organization in existence between the United States and Mexico, formally presented the Office of the U.S. Trade Representative and other U.S. executive branch agencies with their proposal for a bilateral commercial agreement. The proposal called for agreement on broad principles and rules, certain institutional arrangements and eventual discussions between the two countries on specific trade problems.

The proposal was evaluated within the U.S. Government and discussed preliminarily with key Mexican officials. As a result of this process, on April 23, 1985, former U.S. Trade Representative Bill Brock and Mexican Secretary of Commerce Hector Hernandez signed a mutual statement of intent to negotiate a bilateral agreement between them, and for your information, I have attached that to my testimony for the record. Both Governments originally aimed to begin negotiations on a framework in the late fall of 1985. However, this table was set back by the September 1985, earthquake in Mexico. In November 1985, President De La Madrid announced Mexico's intention to seek membership in the GATT and both Governments agreed to further delay negotiations on a framework for sometime until that process was finished. In August of last year, President Reagan and President De La Madrid met in Washington and concluded in their departure statements that priority would be given to the negotiation of the framework agreement and that it should be completed within 1 year.

Mexico presented the U.S. Government with its informal paper outlining proposal for bilateral framework in November 1986. The United States and Mexico agreed in January of this year to begin discussions on the agreement and to explore each other's concepts of it. The first meeting between the two Governments on the agreement took place in Washington on February 27, 1987, and a second round took place recently in Ixtapa, Mexico in early May. The next round of discussions between the two Governments is scheduled to take place in early July in Washington.

On the basis of the two rounds of discussions that have taken place so far, both Governemtns now have a clear understanding of each other's approach to the elements of an agreement. Some differences exist, but there are also large areas of agreement, and we are optimistic that we can meet our President's and the Mexican President's objective of completing the draft of an agreement by August 1987, and we hope that signature of the agreement can follow soon thereafter.

Let me just give a few comments on what the structure of this agreement might look like from the U.S. point of view. The United States would like to see the agreement contain three basic elements. One would be a statement of general principles establishing the basis for a freer flow of bilateral trade and investment. Second, that it should contain procedures for handling trade and investment disputes, and third, that it would contain an agreement work program leading to detailed discussions on specific issues and sectors of interest to both countries.

We see that the bilateral framework agreement will supplement our GATT relationship with Mexico. The statement of principles would contain the fundamental concepts supporting the free flow of bilateral trade and investment. The consultation provisions of the agreement would call for annual consultations between trade ministers and, in addition, would enable trade experts at subcabinet levels to meet as needed to discuss issues of interest to either party. Third, the work program would allow us to explore opportunities as well as try to resolve the specific problems surrounding issues that are of interest to either party. This approach will allow us to try to resolve disagreements on issues before they become emotional or political in nature, which makes resolution always more difficult to achieve.

The work program I think is a very promising area of the agreement. The idea would be that it would comprise several issues or sectors on which working groups would initiate discussions and explore opportunities. We would anticipate these discussions would begin 90 days after the framework agreement itself is signed. On issues, the working groups would identify areas where policies could be clarified or improved, and where sectors are involved, the working groups would aim to negotiate agreements designed to eliminate barriers to bilateral trade and to expand in bilateral trade and investment. The agreements themselves could be implemented as part of the Uruguay round of multilateral trade negotiations, or as individual trade agreements, as appropriate. The United States for its part has proposed investment policies, intellectual property rights and Mexico's policies in the electronics sector as topics of interest to us for this work program. We have not yet received a list of proposals from the Mexican side for this part of the agreement.

I think the major asset of the framework agreement is that it can be a very flexible instrument. The principles and the consultation provisions can be used flexibly to try to reach agreements and to avoid discord.

The bilateral agreement is completely complementary to the GATT, the General Agreement on Tariffs and Trade, because either side could have recourse to use the GATT's dispute settlement procedures if a GATT-covered topic is at issue and cannot be resolved at the bilateral level.

The framework agreement would have the added advantage of allowing either side to raise issues which are still under negotiation in the GATT, such as services, investments, and protection of intellectual property rights worldwide. At the same time, the work program can enable both governments to look in an open-ended way at new opportunities between them. It doesn't have to be limited just to solving disputes or problems. Nevertheless, it should be recognized that the framework agreement will not eliminate all trade and investment frictions between our two countries. The United States and Mexico maintain a large and very diverse trading relationship and are bound to encounter differences of views on some issues. Indeed, there may be times when we do take each other to the GATT or that we do retaliate against one another for some trade action. Nevertheless, the framework agreement will strengthen bilateral trade and investment relations by providing a mechanism, an ongoing mechanism, for improving communications and identifying areas for future cooperation.

The agreement comes at a fascinating time in Mexico's economic development and at an important point in our bilateral economic relationship with Mexico. This agreement offers both countries an opportunity to build on and consolidate the progress achieved under the last several years in De La Madrid's administration and to look for areas of increased cooperation into future administrations. We hope that the framework agreement can be as flexible as both sides want it to be and that it can be as ambitious in seeking liberalized two-way trade investment relations as both sides agree it can be.

A few words about implications of the bilateral framework agreement for the U.S. Southwest. The two aspects of the agreement which I think are most important for this region are the consultation provisions and the work program. Regular consultations between the United States and Mexico can be expected to improve communication between the two governments and reduce bilateral friction on trade and investment issues. The sooner that we can resolve disputes the sooner we can put trade relations on a sound footing and stabilize overall economic relations as well. In addition, consultations can identify areas for future cooperation and we can embark on initiatives between the two governments for an expanded trade and investment relationship. The work program is the area which I think is the most promising. As I said earlier, both governments are still discussing the particular issues that they would like to focus on in this process, and it is impossible at this stage to predict how quickly discussions in the technical working groups will progress or what the ultimate achievements of the indepth discussions will be. However, I can state that the overall objective of the United States in entering into a work program with Mexico is to negotiate some mutually beneficial agreements that lead to an expanded and more diversified economic relationship between the two countries.

I think another advantage of the work program is that it is open ended. It's likely that at the beginning we'll start with four topics, perhaps, six topics, but we don't have to stop there. We can continue to choose other issues that are mutually agreeable and to explore new areas of opportunity as the trade and investment relationship evolves.

A few comments on the effect of expanding United States-Mexican trade on the border region, including New Mexico. We are already seeing a great deal of economic cooperation taking place in the border region between the two countries as a result of the maquiladora program. As you no doubt heard yesterday, the maquilas have grown dramatically in the last few years along the border region in general, and they have grown to the point where they now furnish Mexico with its second largest source of foreign exchange. The maquiladora program was established by Mexico in 1965 and is part of its laws. The United States offers favorable tariff treatment to U.S. components assembled in Mexico and returned to our country for sale, distribution, or export to other countries.

The maquiladora program has resulted in substantial benefits to Mexico. The sector now comprises about 1,000 plants along the border employing, roughly, 275,000 Mexicans. And last year, our information from the Mexican Government is that the sector generated $1.4 billion in foreign exchange for the country. In turn, for the United States, the production sharing which takes place in these border companies and also those within the interior of Mexico, allows U.S. companies to remain competitive in the face of ever-increasing competition from overseas.

The maquilas also help to stimulate U.S. exports to Mexico. Most of them are U.S. owned, most of them use U.S. equipment and technology, and they source their components from throughout the United States. Mexico's proximity to the United States makes it possible for these operations to incorporate much higher levels of U.S. content in the Mexican assembled goods than is characteristic of such goods from more distant locations such as across the Pacific Ocean. Goods coming from Mexico often have as much as 95 percent U.S. content, compared with levels averaging around 50 percent from locations which are more distant. In 1986 the Commerce Department estimated that approximately 75,000 U.S. workers were employed producing the nearly $3 billion in components that were shipped to Mexico for such assembling.

The benefits flowing from the maquiladora operations are perhaps most visible along the border. The U.S. International Trade Commission noted in its November 1986 report on the impact of increased United States-Mexico trade on Southwest border development, that the maquiladoras have contributed directly to the economic health of the border communities in several ways. If I might read a short portion of that.

> An estimated 40 to 60 percent of the wages earned in the maquiladoras are spent in retail outlets in the United States. Many of the managerial and technical personnel employed in the maquiladoras live in the sister city in the United States adding to the demand for retail services. In addition, the maquiladoras have created a demand for industries that support or contribute to their operations including wholesaling services and the production of industrial equipment such as tool and die manufacturing and metal cutting.

In conclusion, the United States and Mexico share many common economic interests. The bilateral framework agreement can be seen as a procedural mechanism which will help to foster closer economic relations. The agreement supplements the GATT, and will permit the development of a mutually beneficial relationship between the two countries. The framework agreement is much less ambitious than the negotiations that we are currently carrying on with Canada on a free trade agreement, but it does represent a small step in trying to remove barriers which exist to increased commerce between the two countries. The agreement will lead to greater cooperation, it will improve communications on trade and investment issues and allow trade and investment officials to discuss problems on a more regular basis, and it will create momentum in the economic sphere that can last into the future beyond the current administration in both countries.

The framework agreement should lead to greater stability in United States-Mexico trade and investment relations, and, in the long run, expand two-way trade and investment flows by liberalizing market access, removing impediments to trade and investment, and clarifying regulations and other procedures. It provides a means to resolve disputes and to reduce misunderstandings.

Mexico is undergoing a terrific transition. They face a challenge this year and next of recovering from a recession in 1986, and establishing conditions for growth in their economy. The United States shares a role in that undertaking. We are Mexico's principal trading partner and the dynamism and openness of our own economy directly affect Mexico's ability to grow through exporting. In addition, the health of our economy holds very significant implications for Mexico and the health of Mexico's economy holds very significant implications for this side of the border. The regions on both sides of the border, to the extent that they are poised to take advantage of increased bilateral exchanges of goods and services and new investments between the two countries, should benefit directly from the increased bilateral cooperation which the framework agreement seeks to engender.

As we have seen from the maquiladora example, increased economic activity between the two nations creates numerous spinoff activities, ranging from customs brokerage and freight forwarding operations to warehousing and distribution centers. Regional financial institutions also benefit from the increased economic activity. Some areas along the border have used the existence of nearby maquiladora operations and foreign trade zones as marketing devices to attract new investors to the area.

New Mexico may be able to take advantage of the growing bilateral trade and investment relationship between the United States and Mexico by developing these and other activities. The potential, we believe, is enormous. Much of the potential in the United States-Mexico economic relationship remains untapped. With Mexico anxious to increase its exports and with Mexican entrepreneurs looking for new competitive opportunities in the United States and elsewhere, this is indeed the right time to look southward.

Mexico is changing rapidly. They are trying to open up their economy and make certain reforms, and this is an opportune time to take advantage of those steps. But, a final word, trade and investment alone cannot solve Mexico's debt problems, nor solve all the economic problems that the country faces. However, we know through historical experience that countries can more easily achieve economic growth once their trade and investment policies are aligned with market considerations and that they no longer have a panoply of barriers to trade and investment from overseas. The steps that Mexico is taking are historic and should help to set in place the underlying conditions for renewed economic growth in the country. We wish Mexico well as it continues in this effort and hope that the framework agreement will help to spur them further in that effort. Thank you very much, Senator.

[The prepared statement of Ms. Coyle follows:]

PREPARED STATEMENT OF MELISSA COYLE

I AM PLEASED TO APPEAR BEFORE YOU TODAY TO PRESENT THE ADMINISTRATION'S VIEWS ON U.S.-MEXICO ECONOMIC RELATIONS.

I AM DIRECTOR OF THE MEXICO DIVISION IN THE U.S. DEPARTMENT OF COMMERCE, ALTHOUGH I APPEAR HERE TODAY AS A WITNESS ON BEHALF OF THE ADMINISTRATION. THIS STATEMENT SUMMARIZES THE MAJOR DEVELOPMENTS IN THE U.S.-MEXICO ECONOMIC RELATIONSHIP, FOCUSING ON RECENT TRADE AND INVESTMENT DEVELOPMENTS. THE TESTIMONY THEN WILL PRESENT BRIEFLY THE HISTORY OF THE BILATERAL FRAMEWORK AGREEMENT WITH MEXICO, GIVE A STATUS REPORT ON THE PRESENT NEGOTIATIONS, AND HIGHLIGHT SOME GENERAL OBSERVATIONS ABOUT THE IMPLICATIONS OF THE AGREEMENT FOR EXPANDED TRADE BETWEEN THE UNITED STATES AND MEXICO. I ALSO MAKE A FEW OBSERVATIONS ON THE EFFECT SUCH EXPANDED TRADE MAY HAVE ON THE BORDER REGION IN GENERAL AND ON NEW MEXICO IN PARTICULAR.

OVERVIEW OF U.S.-MEXICO TRADE AND INVESTMENT FLOWS

THE UNITED STATES IS BY FAR MEXICO'S LARGEST TRADING PARTNER. THE U.S. SUPPLIED 67 PERCENT OF MEXICO'S TOTAL IMPORTS IN 1986, WHILE ROUGHLY 62 PERCENT OF MEXICO'S TOTAL EXPORTS IN 1986 WERE DESTINED FOR THE U.S. MARKET.

MEXICO ALSO IS AN IMPORTANT TRADING PARTNER FOR THE UNITED STATES. IN 1986 MEXICO WAS OUR FOURTH LARGEST TRADING PARTNER OVERALL, RANKING BEHIND ONLY CANADA, JAPAN AND WEST GERMANY. TOTAL TWO-WAY TRADE IN 1986 WAS $30 BILLION. IN EARLIER YEARS MEXICO HAD RANKED AS OUR THIRD LARGEST TRADING PARTNER OVERALL, BUT LAST YEAR'S PRECIPITOUS DROP IN PETROLEUM PRICES CAUSED THE COUNTRY TO FALL TO FIFTH PLACE IN TERMS OF THE VALUE OF IMPORTS IT SUPPLIED TO THE U.S. MARKET. THE FOLLOWING TABLE SHOWS THE TWO-WAY TRADE FLOWS AND THE BALANCE IN MERCHANDISE TRADE BETWEEN THE TWO COUNTRIES FOR THE 1981-1986 PERIOD:

U.S.-MEXICO BILATERAL TRADE
($ BILLION)

	1981	1982	1983	1984	1985	1986
U.S. EXPORTS TO MEXICO	17.8	11.8	9.0	12.0	13.6	12.4
U.S. IMPORTS FROM MEXICO	14.0	15.8	17.0	18.3	19.4	17.6
BALANCE	3.8	(4.0)	(8.0)	(6.3)	(5.8)	(5.2)

SOURCE: BUREAU OF THE CENSUS, U.S. DEPARTMENT OF COMMERCE

PRIOR TO THE ONSET OF MEXICO'S FINANCIAL CRISIS IN 1982, THE UNITED STATES TRADITIONALLY MAINTAINED A TRADE SURPLUS WITH MEXICO. BEGINNING IN 1982, OUR BILATERAL MERCHANDISE TRADE FELL INTO A DEFICIT SITUATION. THE MAGNITUDE OF THE DEFICIT PEAKED IN 1983 AND HAS MODERATED GRADUALLY SINCE THAT TIME. WHILE U.S. EXPORTS TO MEXICO HAVE NOT REGAINED THE HIGH LEVEL ACHIEVED IN 1981, THEY HAVE REBOUNDED SOMEWHAT FROM THEIR LOWEST LEVEL IN 1983. IN 1986, U.S. EXPORTS FELL, AS DID MEXICO'S IMPORTS OVERALL, REFLECTING THE 3.5 PERCENT CONTRACTION IN MEXICO'S ECONOMY. WITH THE MEXICAN GOVERNMENT PROJECTING A TWO PERCENT GROWTH RATE FOR 1987, PROSPECTS FOR U.S. SALES TO THE COUNTRY LOOK SOMEWHAT BRIGHTER THIS YEAR THAN THEY DID IN 1986.

U.S. IMPORTS FROM MEXICO HAVE GROWN STEADILY, WITH THE EXCEPTION OF 1986, WITH AT AN AVERAGE ANNUAL RATE OF INCREASE IN IMPORTS BY VALUE OF NEARLY 9 PERCENT FOR THE 1981-1985 PERIOD. THE DECREASE IN THE VALUE OF U.S. IMPORTS LAST YEAR WAS DUE TO THE SUDDEN DROP IN THE VALUE OF MEXICO'S PETROLEUM EXPORTS DURING THE FIRST HALF OF 1986.

DESPITE THE DRASTIC DECREASE IN THE VALUE OF MEXICO'S PETROLEUM SHIPMENTS, WHICH TRADITIONALLY ACCOUNTED FOR MORE THAN HALF OF MEXICO'S EXPORT SHIPMENTS AND AS MUCH AS 70 PERCENT OF THE COUNTRY'S FOREIGN EXCHANGE EARNINGS, MEXICO MADE IMPRESSIVE GAINS IN 1986 IN INCREASING NON-PETROLEUM EXPORTS. THE COUNTRY'S EXPORTS OF MANUFACTURED GOODS AND AGRICULTURAL PRODUCTS WERE UP 34 PERCENT IN

1986 RELATIVE TO 1985, AND STATISTICS FOR JANUARY-APRIL 1987 INDICATE THAT MANUFACTURED EXPORTS HAVE INCREASED 48 PERCENT COMPARED TO THE SAME PERIOD IN 1986. EVEN THOUGH THE VALUE OF MEXICO'S AGRICULTURAL EXPORTS ARE DOWN IN EARLY 1987 RELATIVE TO 1986, LARGELY DUE TO DECREASES IN THE PRICE OF COFFEE AND TOMATOES, THESE STATISTICS REVEAL THAT AN IMPORTANT CHANGE IN THE PRODUCT MIX OF MEXICAN EXPORTS IS TAKING PLACE. SHOULD THIS INCREASING DIVERSIFICATION IN MEXICO'S EXPORT SECTOR CONTINUE, IT WOULD MEAN GREATER STABILITY FOR THE MEXICAN ECONOMY IN SPITE OF THE VAGARIES WHICH MAY OCCUR IN WORLD PETROLEUM OR AGRICULTURAL COMMODITY MARKETS.

MAJOR U.S. EXPORTS TO MEXICO IN 1986 INCLUDED AUTO PARTS, ELECTRONIC TUBES, ELECTRICAL SWITCHES, OFFICE MACHINERY COMPONENTS, AND SOYBEANS. PRINCIPAL U.S. IMPORTS FROM MEXICO IN 1986 WERE CRUDE PETROLEUM, COFFEE, AUTOMOBILE ENGINES AND OTHER AUTOMOBILE PARTS.

THE U.S. HAS CONSISTENTLY REGISTERED SURPLUSES WITH MEXICO IN SERVICES TRADE, PROVIDING A PARTIAL OFFSET TO THE MERCHANDISE TRADE DEFICIT IN OUR CURRENT ACCOUNT BALANCE. IN 1985, THE OVERALL SURPLUS IN BILATERAL SERVICES TRADE WAS NEARLY $1.7 BILLION. THIS TRADE IS CHARACTERIZED BY TOURISM DOLLARS FLOWING SOUTH AND INTEREST PAYMENTS ON MEXICAN DEBT FLOWING NORTH.

MEXICO IS THE 13TH LARGEST DESTINATION FOR U.S. DIRECT FOREIGN INVESTMENT, EVEN THOUGH TOTAL FOREIGN DIRECT INVESTMENT ACCOUNTS FOR

ONLY 4.5 PERCENT OF ALL INVESTMENT IN THE COUNTRY. CURRENTLY, THE U.S. DIRECT INVESTMENT POSITION (CUMULATIVE) IN MEXICO IS ESTIMATED AT ABOUT $5 BILLION. THE BIG 3 AUTO COMPANIES ALL HAVE EXTENSIVE INVESTMENTS IN MEXICO, AS DO A NUMBER OF U.S. COMPANIES IN THE CHEMICAL, COMPUTER, AND TOURISM INDUSTRIES. THE U.S. HOLDS THE LARGEST SHARE OF DIRECT FOREIGN INVESTMENT IN MEXICO (ABOUT 60 PERCENT OF THE TOTAL), FOLLOWED BY SWITZERLAND (9.9 PERCENT), THE FEDERAL REPUBLIC OF GERMANY (9.3 PERCENT), JAPAN (5.3 PERCENT), AND CANADA (2.8 PERCENT).

U.S. DIRECT FOREIGN INVESTMENT POSITION IN MEXICO

($ BILLION)

1981	1982	1983	1984	1985
7.0	5.6	5.1	4.6	5.1

U.S.-MEXICO TRADE AND INVESTMENT RELATIONS

MEXICO'S ANNOUNCEMENT OF ITS DECISION TO ACCEDE TO THE GENERAL AGREEMENT ON TARIFFS AND TRADE (GATT) IN NOVEMBER 1985 MARKED A TURNING POINT IN MEXICO'S INVOLVEMENT IN INTERNATIONAL TRADE RELATIONS. IT SIGNIFIED THE COUNTRY'S INTENTION TO BECOME MORE CLOSELY INTEGRATED INTO THE INTERNATIONAL TRADING SYSTEM AND TO INCREASE THE ROLE OF THE FOREIGN TRADE SECTOR IN THE OVERALL ECONOMY. THE ANNOUNCEMENT LED TO INTENSIVE NEGOTIATIONS BETWEEN

MEXICO AND ITS MAJOR TRADING PARTNERS TO AGREE UPON THE TERMS UNDER WHICH MEXICO WOULD BECOME A CONTRACTING PARTY TO THE GATT. MEXICO STATED ITS DESIRE TO BECOME A FULL GATT CONTRACTING PARTY BY SEPTEMBER 1986 SO THAT IT COULD MEET THE DEADLINE FOR PARTICIPATING IN THE MEETING OF GATT MEMBER COUNTRY TRADE MINISTERS IN PUNTA DEL ESTE, URUGUAY, INAUGURATING A NEW ROUND OF MULTILATERAL TRADE NEGOTIATIONS.

DURING THE FIRST HALF OF 1986, SEVERAL ROUNDS OF BILATERAL NEGOTIATIONS TOOK PLACE BETWEEN THE UNITED STATES AND MEXICO ON THE TERMS OF MEXICO'S ACCESSION TO THE GATT, WITH AGREEMENT LARGELY REACHED BY EARLY JULY 1986. ON JULY 15, THE GATT COUNCIL MET AND RECOMMENDED APPROVAL OF MEXICO'S PROTOCOL OF ACCESSION. BALLOTING ON MEXICO'S ACCEPTANCE BEGAN IMMEDIATELY, AND THE UNITED STATES WAS THE FIRST CONTRACTING PARTY TO CAST A VOTE IN FAVOR OF MEXICO'S ENTRY. THE NECESSARY TWO-THIRDS OF THE 91 GATT MEMBERS SUPPORTING MEXICO'S ACCESSION WERE RECEIVED BY JULY 17. MEXICO'S SECRETARY OF COMMERCE AND INDUSTRIAL DEVELOPMENT, HECTOR HERNANDEZ, SIGNED THE PROTOCOL OF ACCESSION OFFICIALLY ON JULY 25, AND MEXICO FORMALLY BECAME THE 92ND CONTRACTING PARTY TO THE GATT ON AUGUST 24, 1986.

IN ACCEDING TO THE GATT, MEXICO MADE THE FOLLOWING COMMITMENTS OUTLINED IN ITS PROTOCOL OF ACCESSION:

- TO BIND IMPORT DUTIES ON ALL 8,413 TARIFF LINES IN THE MEXICAN TARIFF SCHEDULE AT A MAXIMUM OF 50 PERCENT, MEANING THAT MEXICO PLEDGES NOT TO RAISE ITS TARIFFS ABOVE THE BOUND LEVEL WITHOUT COMPENSATING TRADING PARTNERS FOR LOSSES DUE TO ANY SUCH INCREASE.

- TO LOWER AND BIND TARIFFS ON 373 ITEMS BELOW THE 50 PERCENT BOUND RATE. THESE ITEMS REPRESENTED 16 PERCENT (OR $1.9 BILLION) OF THE VALUE OF ALL MEXICO'S IMPORTS IN 1985. OF THESE CONCESSIONS, MEXICO GRANTED BINDINGS BELOW THE 50 PERCENT CEILING ON 210 ITEMS IN RESPONSE TO SPECIFIC U.S. REQUESTS. THESE ITEMS REPRESENTED $1.2 BILLION OR 15.7 PERCENT OF TOTAL MEXICAN IMPORTS FROM THE UNITED STATES IN 1985. MEXICO ALSO AGREED TO BIND ELIMINATION OF IMPORT LICENSING REQUIREMENTS ON 175 OF THE 210 U.S. REQUESTS.

- TO IMPLEMENT ANY FUTURE SECTORAL PROGRAMS UNDER ITS NATIONAL DEVELOPMENT PLAN IN ACCORDANCE WITH GATT REQUIREMENTS. THE PLAN COVERS SECTORAL PROGRAMS IN AGRICULTURE AND INDUSTRY DESIGNED TO ACCOMPLISH SPECIAL DEVELOPMENT OBJECTIVES.

- TO ELIMINATE "TO THE FULLEST EXTENT POSSIBLE" IMPORT LICENSING REQUIREMENTS AND IMPORT QUOTAS WHICH ONCE RESTRICTED ALL OF MEXICO'S IMPORTS.

- TO ELIMINATE ITS "OFFICIAL PRICE SYSTEM" OF CUSTOMS VALUATION BY DECEMBER 31, 1987. THIS SYSTEM, WHICH SUBSTITUTES ARTIFICIAL VALUES FOR INVOICE VALUES ON DESIGNATED PRODUCTS, WILL BE REPLACED BY A GATT-CONSISTENT APPROACH BASED ON THE "TRANSACTION VALUE" (THE PRICE ACTUALLY PAID OR PAYABLE) OF THE MERCHANDISE.

- TO OPERATE MEXICO'S PARASTATALS IN ACCORDANCE WITH GATT REQUIREMENTS.

- IN ADDITION, MEXICO INDICATED IT INTENDED TO SIGN SEVERAL OF THE GATT NON-TARIFF BARRIER CODES, INCLUDING THOSE ON IMPORT LICENSING, CUSTOMS VALUATION, ANTIDUMPING, AND TECHNICAL BARRIERS TO TRADE (STANDARDS) AND TO INITIATE NEGOTIATIONS LEADING TO ACCESSION TO THE SUBSIDIES CODE.

THESE COMMITMENTS RESULTED IN A BALANCED, MUTUALLY ADVANTAGEOUS AGREEMENT THAT WAS AMONG THE MOST COMPREHENSIVE NEGOTIATED WITH ANY DEVELOPING COUNTRY.

TRADE REFORM IN MEXICO

DURING 1987, MEXICO HAS BEEN IMPLEMENTING THESE GATT COMMITMENTS PROGRESSIVELY. WE BELIEVE THAT THE DE LA MADRID ADMINISTRATION SHOULD BE COMMENDED FOR PURSUING THIS AMBITIOUS, COURAGEOUS AND COMPREHENSIVE

APPROACH TO TRADE LIBERALIZATION DURING A TIME WHEN THE MEXICAN ECONOMY HAS BEEN SUBJECT TO SEVERE STRAINS CAUSED BY THE LARGE FOREIGN DEBT AND EXACERBATED BY LAST YEAR'S DOWNTURN IN PETROLEUM PRICES.

THESE CHANGES HAVE BEEN CONTROVERSIAL WITHIN MEXICO, SINCE MEXICAN INDUSTRIALISTS FEAR LOSING THE PROTECTION THEY HAVE ENJOYED FOR MORE THAN FORTY YEARS. THE DE LA MADRID ADMINISTRATION HAS DONE A COMMENDABLE JOB IN CONVINCING THE MEXICAN PUBLIC OF THE NEED FOR THESE COMPREHENSIVE CHANGES IN THE COUNTRY'S TRADE REGIME. THE PRINCIPAL ARGUMENT USED IS THAT MEXICO MUST REFORM ITS POLICIES IF IT IS TO BECOME A COMPETITIVE EXPORTER IN THE WORLD MARKETPLACE. MEXICAN GOVERNMENT OFFICIALS ACKNOWLEDGE THAT MEXICO'S TRADE LIBERALIZING STEPS WILL FORCE DOMESTIC PRODUCERS TO BECOME MORE EFFICIENT BECAUSE THEY WILL BE EXPOSED TO WORLD COMPETITION. BY GAINING GREATER ACCESS TO INPUTS AND EQUIPMENT AT MORE COMPETITIVE PRICES, THE HOPE IS THAT MEXICO'S PRODUCERS CAN STREAMLINE THEIR OWN COST STRUCTURES, THUS ENABLING THEM TO COMPETE BETTER IN SELLING TO OVERSEAS MARKETS.

IMPLEMENTATION OF MEXICO'S TRADE REFORMS

THE FOLLOWING INFORMATION SUMMARIZES THE STEPS WHICH MEXICO HAS TAKEN IN IMPLEMENTING KEY MARKET LIBERALIZATION TRADE MEASURES IN THE LAST SEVERAL YEARS.

IMPORT LICENSING REDUCTIONS

1983	ENTIRE MEXICAN TARIFF SCHEDULE SUBJECT TO LICENSING
MID-1985	4513 TARIFF LINES SUBJECT TO LICENSING
AUGUST 1986	818 TARIFF LINES SUBJECT TO LICENSING
FEBRUARY 1987	651 TARIFF LINES SUBJECT TO LICENSING
MAY 1987	504 TARIFF LINES SUBJECT TO LICENSING

ADDITIONAL REDUCTIONS IN IMPORT LICENSING REQUIREMENTS MAY BE PROPOSED IN THE FUTURE, BUT AS YET NO OFFICIAL ANNOUNCEMENT HAS BEEN ISSUED.

ELIMINATION OF OFFICIAL PRICES

FEBRUARY 1987 & APRIL 1987	OFFICIAL PRICES ELIMINATED ON APPROXIMATELY 500 TARIFF LINES (FROM ABOUT 1000 INITIALLY)
APRIL 1987	OFFICIAL PRICES REDUCED BY ONE-THIRD ON 462 TARIFF LINES WHERE OFFICIAL PRICE FOUND TO BE HIGHER THAN THE INTERNATIONAL MARKET LEVEL
REMAINDER OF 1987	ON REMAINING 587 TARIFF LINES, WILL REDUCE AMOUNT OF OFFICIAL PRICE IN PHASES, REACHING ZERO BY THE END OF THE YEAR.

IN A MOVE NOT DIRECTLY RELATED TO MEXICO'S GATT ACCESSION, MEXICO ALSO IS IMPLEMENTING A PROGRAM OF ACROSS-THE-BOARD TARIFF REDUCTIONS. THIS INITIATIVE WILL LOWER TARIFFS IN SEVERAL STAGES TO A MAXIMUM OF 30 PERCENT BY NOVEMBER 1, 1988. (SEE TABLE).

TARIFF REDUCTIONS

APRIL 1986	ANNOUNCEMENT OF TARIFF REDUCTION PROGRAM TOP RATE OF 45 PERCENT AD VALOREM
FEBRUARY 1987	TOP RATE OF 40 PERCENT AD VALOREM
DECEMBER 1987	TOP RATE OF 35 PERCENT AD VALOREM
NOVEMBER 1, 1988	TOP RATE OF 30 PERCENT AD VALOREM

THESE STEPS, PARTICULARLY THE LIBERALIZATION OF THE TRADITIONAL NON-TARIFF BARRIERS TO THE MEXICAN MARKET, SHOULD INCREASE OPPORTUNITIES FOR U.S. EXPORTS TO THE COUNTRY. SINCE MANY OF THE CHANGES ARE BEING GRADUALLY PHASED IN, HOWEVER, WE DO NOT LOOK FOR A SURGE IN U.S. SALES, PARTICULARLY IN FINISHED CONSUMER GOODS OR TRADITIONAL LUXURY GOODS, WHICH PROBABLY WILL REMAIN SUBJECT TO IMPORT RESTRICTIONS. U.S. EXPORT PROSPECTS LOOK BRIGHTER FOR MANY CATEGORIES OF CAPITAL GOODS, PARTICULARLY MACHINERY AND EQUIPMENT, AND COMPUTER SERVICES. THE AMOUNT OF CREDIT AVAILABLE TO THE MEXICAN PRIVATE SECTOR, OF COURSE, HAS A LARGE BEARING ON DEMAND FOR THESE PRODUCTS IN THE COUNTRY. AT PRESENT, SUCH CREDIT STILL IS HIGHLY RESTRICTED DUE TO THE LARGE DEMAND FOR CAPITAL GENERATED BY THE MEXICAN PUBLIC SECTOR.

MEXICO'S FOREIGN INVESTMENT POLICY

THE UNITED STATES WOULD LIKE TO SEE MORE LIBERALIZATION IN MEXICO'S POLICIES ON FOREIGN INVESTMENT. UNDER MEXICO'S 1973 LAW ON FOREIGN INVESTMENT, FOREIGN EQUITY IN INVESTMENTS IS LIMITED TO 49 PERCENT. IN RECENT YEARS, THE MEXICAN GOVERNMENT HAS BEEN ADMINISTERING THE INVESTMENT LAW "FLEXIBLY" TO PERMIT 100 PERCENT FOREIGN-OWNED OPERATIONS UNDER CERTAIN CONDITIONS. COMPANIES SEEKING SUCH MAJORITY OWNERSHIP POSITIONS FREQUENTLY ARE ASKED BY THE NATIONAL FOREIGN INVESTMENT COMMISSION, WHICH MUST REVIEW AND APPROVE ALL SUCH APPLICATIONS, TO COMPLY WITH CERTAIN LOCAL CONTENT AND EXPORT PERFORMANCE REQUIREMENTS. THE UNITED STATES OPPOSES SUCH REQUIREMENTS BECAUSE THEY DISTORT TRADE AND INVESTMENT FLOWS AND PREVENT COMMERCIAL DECISIONS FROM BEING BASED ON MARKET CONSIDERATIONS. THE UNITED STATES IS WORKING WITH OTHER GATT MEMBERS IN THE URUGUAY ROUND OF MULTILATERAL TRADE NEGOTIATIONS TO SEEK MORE GATT DISCIPLINE OVER THE APPLICATION OF SUCH MEASURES TO INVESTMENT ACTIVITIES.

MEXICO HAS IMPLEMENTED SEVERAL REFORMS TO EASE THE APPROVAL PROCESS FOR CERTAIN INVESTMENTS, INCLUDING THOSE BY SMALL AND MEDIUM FIRMS MEETING SPECIFIC SIZE AND EXPORTING REQUIREMENTS. MEXICO'S SUCCESSFUL AND WIDELY PUBLICIZED DEBT-EQUITY SWAP PROGRAM HAS ENCOURAGED INVESTORS TO PURCHASE MEXICAN DEBT AND EXCHANGE IT FOR EQUITY IN ENTERPRISES IN MEXICO. THE PROGRAM RESULTED IN A SIGNIFICANT INCREASE IN NEW DIRECT FOREIGN INVESTMENT ENTERING THE COUNTRY IN 1986 COMPARED

TO 1985. ACCORDING TO MEXICO'S BALANCE OF PAYMENTS FIGURES, $861 MILLION IN NEW INVESTMENT ENTERED THE COUNTRY IN THE FIRST THREE QUARTERS OF 1986, WITH THE TOTAL FOR 1986 ESTIMATED AT $1.3-$1.4 BILLION COMPARED TO $490 MILLION FOR ALL OF 1985. WHILE THESE FIGURES ARE IMPRESSIVE, THE ADMINISTRATION CONTINUES TO TAKE THE POSITION THAT MEXICO COULD IMPROVE ITS INVESTMENT CLIMATE SUBSTANTIALLY BY CLARIFYING THE PROCEDURES FOR APPLYING FOR MAJORITY FOREIGN EQUITY IN AN OPERATION AND ELIMINATING LOCAL CONTENT AND EXPORT PERFORMANCE REQUIREMENTS. WE HOPE TO TACKLE SOME OF THESE ASPECTS IN FUTURE BILATERAL DISCUSSIONS.

EVOLUTION OF THE FRAMEWORK AGREEMENT

PRIOR TO MEXICO'S ENTRY INTO THE GATT ON AUGUST 24, 1986, NO FORMAL MECHANISM, OTHER THAN THE APRIL 1985 BILATERAL UNDERSTANDING REGARDING SUBSIDIES AND COUNTERVAILING DUTIES, HAD EXISTED BETWEEN MEXICO AND THE UNITED STATES TO GOVERN COMMERCIAL RELATIONS SINCE THE TERMINATION BY MEXICO IN 1950 OF THE RECIPROCAL TRADE AGREEMENT (1943-1950). AS A RESULT, MOST CONTACT BETWEEN THE TWO GOVERNMENTS ON TRADE AND INVESTMENT ISSUES DURING THAT PERIOD WAS USUALLY AD HOC, CRISIS-ORIENTED AND OFTEN PRONE TO MISUNDERSTANDING. ALTHOUGH EACH COUNTRY EXTENDED TO THE OTHER MOST-FAVORED-NATION (MFN) TREATMENT AND OTHER BENEFITS, NO FORMAL BASIS EXISTED FOR THESE ACTIONS AND, CONSEQUENTLY, THERE WAS NO TRUE SECURITY OF ACCESS FOR EITHER COUNTRY'S EXPORTERS OR INVESTORS.

AFTER THE DECISION IN MARCH 1980 BY THE MEXICAN ECONOMIC CABINET TO REJECT ENTRY INTO THE GATT AFTER NEGOTIATING A PROTOCOL OF ACCESSION DURING THE TOKYO ROUND OF MULTILATERAL TRADE NEGOTIATIONS, THERE WAS MUCH THINKING WITHIN THE U.S. GOVERNMENT ABOUT HOW BEST TO ESTABLISH A FORUM WITH MEXICO FOR DISCUSSING AND POSSIBLY RESOLVING TRADE DISPUTES AND RELATED ISSUES. THIS INTERNAL REFLECTION WAS MATCHED BY ANALYSIS CARRIED OUT BY THE MEXICO-U.S. BUSINESS COMMITTEE, REPRESENTED HERE TODAY, WHICH PLAYED A KEY ROLE IN CONCEIVING THE ORIGINAL CONCEPT FOR A BILATERAL FRAMEWORK AGREEMENT. THE COMMITTEE HAS WORKED ENERGETICALLY WITH BOTH GOVERNMENTS TO DEVELOP AND PROMOTE THE IDEA SINCE THE EARLY 1980'S.

THE FIRST CONCRETE RESULT OF THIS DESIRE FOR A MORE FORMALIZED RELATIONSHIP WAS THE FORMATION IN JUNE 1981 BY PRESIDENTS REAGAN AND LOPEZ PORTILLO OF THE JOINT COMMITTEE ON COMMERCE AND TRADE (JCCT). THIS MECHANISM WAS INTENDED TO BE THE PRINCIPAL VEHICLE FOR ADDRESSING U.S.-MEXICAN ECONOMIC/COMMERCIAL ISSUES. EARLY ON WITHIN THE JCCT, THE U.S. PROPOSED THAT A BILATERAL NOTIFICATION AND CONSULTATION AGREEMENT BE NEGOTIATED, BUT THE IDEA WAS NOT ENDORSED AT THAT TIME BY THE MEXICAN SIDE. THE JCCT DID NOT MEET REGULARLY, AND BY THE 1982-83 PERIOD, ECONOMIC CONDITIONS IN MEXICO MADE IT EXTREMELY DIFFICULT TO ACHIEVE RESOLUTION OF ISSUES IDENTIFIED FOR FURTHER WORK. THE JCCT HAS NOT MET SINCE JULY 1983.

IN JUNE 1983, THE MEXICO-U.S. BUSINESS COMMITTEE, THE OLDEST BINATIONAL BUSINESS ORGANIZATION IN EXISTENCE BETWEEN THE U.S. AND MEXICO, FORMALLY PRESENTED THE OFFICE OF THE U.S. TRADE REPRESENTATIVE AND OTHER U.S. EXECUTIVE BRANCH AGENCIES WITH THEIR PROPOSAL FOR A BILATERAL COMMERCIAL AGREEMENT. THE PROPOSAL CALLED FOR AGREEMENT ON BROAD PRINCIPLES AND RULES, CERTAIN INSTITUTIONAL ARRANGEMENTS, AND EVENTUAL DISCUSSIONS ON SPECIFIC TRADE PROBLEMS. THE PROPOSAL WAS EVALUATED WITHIN THE TRADE POLICY STAFF COMMITTEE (TPSC) STRUCTURE AND DISCUSSED PRELIMINARILY WITH KEY MEXICAN OFFICIALS. ON APRIL 23, 1985, FORMER U.S. TRADE REPRESENTATIVE BILL BROCK AND MEXICAN SECRETARY OF COMMERCE HECTOR HERNANDEZ SIGNED A "STATEMENT OF INTENT TO NEGOTIATE A FRAMEWORK OF PRINCIPLES AND PROCEDURES REGARDING THE TRADE AND INVESTMENT RELATIONS BETWEEN THE UNITED MEXICAN STATES AND THE UNITED STATES OF AMERICA." (ATTACHMENT).

BOTH GOVERNMENTS ORIGINALLY AIMED TO BEGIN NEGOTIATIONS ON A FRAMEWORK AGREEMENT IN LATE FALL OF 1985. THIS TIMETABLE WAS SET BACK BY THE SEPTEMBER 1985 EARTHQUAKE IN MEXICO. THE NOVEMBER 1985 ANNOUNCEMENT BY PRESIDENT DE LA MADRID OF MEXICO'S INTENTION TO SEEK MEMBERSHIP IN THE GATT LED TO A MUTUAL AGREEMENT TO POSTPONE BILATERAL FRAMEWORK DISCUSSIONS UNTIL AFTER THE GATT ACCESSION PROCESS WAS COMPLETED. DURING MEXICAN PRESIDENT DE LA MADRID'S VISIT TO WASHINGTON IN AUGUST 1986, PRESIDENT REAGAN AND PRESIDENT DE LA MADRID NOTED DURING THEIR DEPARTURE STATEMENTS THAT PRIORITY WOULD BE GIVEN TO THE NEGOTIATION

OF A BILATERAL FRAMEWORK AGREEMENT ON TRADE AND INVESTMENT. THE PRESIDENTS INSTRUCTED THAT SUCH NEGOTIATIONS BE COMPLETED WITHIN ONE YEAR.

MEXICO PRESENTED AN INFORMAL PAPER OUTLINING ITS PROPOSALS FOR A BILATERAL FRAMEWORK AGREEMENT TO THE OFFICE OF THE U.S. TRADE REPRESENTATIVE IN NOVEMBER 1986. THE U.S. AND MEXICO AGREED AT THE JANUARY 29, 1987 BINATIONAL COMMISSION MEETING IN WASHINGTON TO BEGIN WORK IMMEDIATELY ON NEGOTIATING A BILATERAL FRAMEWORK AGREEMENT. DELEGATIONS FROM BOTH GOVERNMENTS MET IN WASHINGTON ON FEBRUARY 27, 1987 TO BEGIN DISCUSSING IN DETAIL THE CONTENT OF AND OBJECTIVES FOR A FRAMEWORK AGREEMENT. A SECOND ROUND TOOK PLACE IN IXTAPA, MEXICO ON MAY 7-8, 1987. THE NEXT ROUND IS SCHEDULED TO TAKE PLACE IN WASHINGTON IN EARLY JULY.

ON THE BASIS OF THE TWO ROUNDS OF DISCUSSIONS, BOTH GOVERNMENTS NOW HAVE A CLEAR UNDERSTANDING OF EACH OTHER'S APPROACH TO THE ELEMENTS OF A BILATERAL FRAMEWORK AGREEMENT. SOME DIFFERENCES EXIST, BUT THERE ALSO ARE LARGE AREAS OF AGREEMENT. WE ARE OPTIMISTIC THAT WE CAN MEET THE OBJECTIVE OF CONCLUDING THE DRAFT OF AN AGREEMENT BY AUGUST 1987. SIGNATURE OF THE DOCUMENT BY APPROPRIATE OFFICIALS OF BOTH GOVERNNENTS COULD FOLLOW BY THE FALL.

U.S. VIEWS ON THE BILATERAL FRAMEWORK AGREEMENT

THE U.S. WOULD LIKE TO SEE THE AGREEMENT CONTAIN A STATEMENT OF GENERAL PRINCIPLES ESTABLISHING THE BASIS FOR A FREER FLOW OF BILATERAL TRADE AND INVESTMENT, PROCEDURES FOR HANDLING TRADE AND INVESTMENT DISPUTES, AND AN AGREED "WORK PROGRAM" LEADING TO DETAILED DISCUSSIONS ON ISSUES OR SECTORS OF PARTICULAR INTEREST TO BOTH COUNTRIES IN THE FUTURE.

WE ENVISAGE THE BILATERAL FRAMEWORK AGREEMENT AS SUPPLEMENTING OUR GATT RELATIONSHIP. THE STATEMENT OF PRINCIPLES WOULD CONTAIN THE FUNDAMENTAL CONCEPTS SUPPORTING THE FREE FLOW OF BILATERAL TRADE AND INVESTMENT. THE CONSULTATION PROVISIONS OF THE AGREEMENT WOULD CALL FOR ANNUAL CONSULTATIONS BETWEEN THE NATIONS' TRADE MINISTERS. IN ADDITION, THESE PROVISIONS WOULD ENABLE TRADE EXPERTS FROM THE TWO COUNTRIES TO SIT DOWN TOGETHER ON AN AS-NEEDED BASIS, AT THE REQUEST OF EITHER PARTY, TO DISCUSS AREAS OF DISPUTE AT AN EARLY STAGE. THIS APPROACH WOULD ALLOW FOR RESOLUTION BEFORE DISAGREEMENTS ESCALATED OR GAINED AN EMOTIONAL OR A POLITICAL CONTENT WHICH WOULD MAKE THE POSSIBILITY OF REACHING A SOLUTION CONSIDERABLY MORE REMOTE.

FINALLY, BOTH SIDES WOULD AGREE TO A SHORT-TERM "WORK PROGRAM" COMPRISING SEVERAL ISSUES OR SECTORS ON WHICH WORKING GROUPS WOULD INITIATE DETAILED DISCUSSIONS WITHIN 90 DAYS AFTER THE FRAMEWORK AGREEMENT ITSELF IS SIGNED. ON ISSUES, THE WORKING GROUPS WOULD

IDENTIFY AREAS WHERE POLICIES COULD BE CLARIFIED OR IMPROVED TO LEAD TO EXPANDED COOPERATION IN THE AREA. WHERE SECTORS ARE INVOLVED, THE WORKING GROUPS WOULD AIM TO NEGOTIATE AGREEMENTS DESIGNED TO ELIMINATE IMPEDIMENTS TO EXPANDED BILATERAL TRADE AND INVESTMENT. THE AGREEMENTS THEMSELVES COULD BE IMPLEMENTED AS PART OF THE URUGUAY ROUND OR AS INDIVIDUAL TRADE AGREEMENTS AS APPROPRIATE. THE U.S. HAS PROPOSED INVESTMENT POLICIES, INTELLECTUAL PROPERTY RIGHTS, AND MEXICO'S POLICIES IN THE ELECTRONICS SECTOR AS TOPICS OF INTEREST TO IT FOR THE WORK PROGRAM. WE HAVE NOT YET RECEIVED A LIST OF FINAL PROPOSALS FROM THE MEXICAN GOVERNMENT ON THE TOPICS IT WISHES TO CONSIDER.

THE FRAMEWORK CAN BE VIEWED AS A VERY FLEXIBLE INSTRUMENT. THE GENERAL PRINCIPLES AND THE CONSULTATION PROVISIONS, IN ADDITION TO THE RELATIONSHIP WHICH BOTH COUNTRIES NOW HAVE IN THE GATT, CAN PROVIDE A SOLID BASIS FOR DISCUSSING ANY TRADE OR INVESTMENT ISSUE OF INTEREST TO EITHER SIDE. THE BILATERAL AGREEMENT IS COMPLETELY COMPLEMENTARY TO GATT, SINCE EITHER SIDE WOULD HAVE RECOURSE TO USE THE GATT'S DISPUTE SETTLEMENT PROCEDURES IF A GATT-COVERED TOPIC WERE AT ISSUE.

THE FRAMEWORK AGREEMENT WOULD HAVE THE ADDED ADVANTAGE OF ALLOWING EITHER SIDE TO RAISE ISSUES STILL UNDER NEGOTIATION IN THE GATT, SUCH AS TRADE IN SERVICES, INVESTMENT, AND INTELLECTUAL PROPERTY RIGHTS. AT THE SAME TIME, THE "WORK PROGRAM" PROVIDES AN OPEN-ENDED AVENUE FOR PURSUING TWO-WAY LIBERALIZATION OF U.S.-MEXICO TRADE AND INVESTMENT AND EXPANDING AREAS OF COOPERATION BETWEEN THE TWO ECONOMIES.

NEVERTHELESS, IT SHOULD BE RECOGNIZED THAT THE FRAMEWORK AGREEMENT WILL NOT ELIMINATE ALL TRADE AND INVESTMENT FRICTIONS BETWEEN THE TWO COUNTRIES. THE U.S. AND MEXICO MAINTAIN A LARGE AND VERY DIVERSE TRADING RELATIONSHIP AND ARE BOUND TO ENCOUNTER DIFFERENCES OF VIEWS ON SOME ISSUES.

FOR EXAMPLE, THE UNITED STATES DISCUSSED DIFFERENCES WITH MEXICO LAST YEAR CONCERNING IMPLEMENTATION BY MEXICO OF THE BILATERAL SUBSIDIES UNDERSTANDING AND MEXICO'S PROTECTION OF INTELLECTUAL PROPERTY RIGHTS, PARTICULARLY PRODUCT PATENT PROTECTION FOR PHARMACEUTICALS AND CERTAIN CHEMICALS AND PROCESS PROTECTION FOR BIOTECHNOLOGICAL INNOVATIONS. MEXICO, FOR ITS PART, RAISED CERTAIN QUESTIONS ABOUT U.S. COUNTERVAILING DUTY LAW, SOUGHT IMPROVED MARKET ACCESS TO THE U.S. FOR BASIC STEEL AND TEXTILE PRODUCTS, AND CRITICIZED THE APPLICATION OF U.S. HEALTH AND SAFETY REGULATIONS AFFECTING MEXICAN AGRICULTURAL EXPORTS.

INDEED, THERE MAY BE TIMES WHEN BOTH COUNTRIES DECIDE TO RESORT TO THE GATT DISPUTE SETTLEMENT PROCESS ON PARTICULARLY DIFFICULT MATTERS. NEVERTHELESS, THE FRAMEWORK AGREEMENT WILL STRENGTHEN BILATERAL TRADE AND INVESTMENT RELATIONS BY PROVIDING A MECHANISM FOR IMPROVING COMMUNICATION AND IDENTIFYING AREAS FOR FUTURE COOPERATION.

THE AGREEMENT COMES AT A FASCINATING TIME IN MEXICO'S ECONOMIC DEVELOPMENT AND AT AN IMPORTANT POINT IN OUR BILATERAL ECONOMIC

RELATIONS. IT OFFERS THE UNITED STATES AND MEXICO AN OPPORTUNITY TO BUILD ON AND CONSOLIDATE THE PROGRESS ACHIEVED IN THE LAST SEVERAL YEARS AND TO CREATE MOMENTUM THAT WILL LEAD TO CONTINUED COOPERATION OVER THE LONGER TERM. WE HOPE THAT THE FRAMEWORK AGREEMENT CAN BE AS FLEXIBLE AS BOTH SIDES WANT IT TO BE, AND THAT IT CAN BE AS AMBITIOUS IN SEEKING TO LIBERALIZE TWO-WAY TRADE AND INVESTMENT RELATIONS AS BOTH SIDES AGREE THAT IT SHOULD BE.

IMPLICATIONS OF THE BILATERAL FRAMEWORK AGREEMENT FOR THE U.S. SOUTHWEST

TWO ASPECTS OF THE BILATERAL FRAMEWORK AGREEMENT HAVE PARTICULAR IMPLICATIONS FOR EXPANDING FUTURE U.S.-MEXICO TRADE AND INVESTMENT TIES. THE FIRST ASPECT IS THE CONSULTATION MECHANISM; THE SECOND, THE PROPOSED "WORK PROGRAM."

REGULAR CONSULTATIONS BETWEEN THE U.S. AND MEXICO ON TRADE AND INVESTMENT ISSUES CAN BE EXPECTED TO IMPROVE COMMUNICATION BETWEEN THE TWO GOVERNMENTS AND REDUCE BILATERAL FRICTIONS ON THE ISSUES UNDER DISCUSSION. EARLY RESOLUTION OF DISPUTES WILL HELP TO PUT U.S.-MEXICO TRADE RELATIONS ON A SOUNDER FOOTING, LEADING TO MORE STABLE ECONOMIC RELATIONS OVERALL. IN ADDITION, CONSULTATIONS UNDER THE FRAMEWORK NEED NOT BE LIMITED TO SEEKING THE RESOLUTION OF DISPUTES; THEY ALSO CAN IDENTIFY APPROPRIATE AREAS FOR EXPANDED BILATERAL ECONOMIC COOPERATION. INITIATIVES UNDERTAKEN AS A RESULT OF SUCH CONSULTATIONS

WOULD BENEFIT THE BORDER REGIONS TO THE EXTENT THAT THEY LEAD DIRECTLY OR INDIRECTLY TO THE EXPANDED EXCHANGE OF GOODS AND SERVICES.

THE "WORK PROGRAM" OFFERS PERHAPS THE GREATEST POTENTIAL FOR EXPANDING U.S.-MEXICO TRADE AND INVESTMENT INTO NEW AREAS OF OPPORTUNITY. BOTH GOVERNMENTS ARE STILL DISCUSSING THE PARTICULAR TOPICS TO BE TAKEN UP UNDER A SHORT-TERM WORK PROGRAM, AND IT IS IMPOSSIBLE AT THIS STAGE TO PREDICT HOW QUICKLY DISCUSSIONS IN THE TECHNICAL WORKING GROUPS WILL PROGRESS OR WHAT THE ULTIMATE ACHIEVEMENTS OF THE IN-DEPTH DISCUSSIONS WILL BE. HOWEVER, I CAN STATE THAT THE OVERALL OBJECTIVE OF THE UNITED STATES IN ENTERING INTO A "WORK PROGRAM" WITH MEXICO IS TO NEGOTIATE MUTUALLY BENEFICIAL AGREEMENTS THAT LEAD TO AN EXPANDED AND MORE DIVERSIFIED ECONOMIC RELATIONSHIP BETWEEN OUR TWO COUNTRIES.

MOREOVER, THE "WORK PROGRAM" IS AN OPEN-ENDED UNDERTAKING. WHILE IT IS LIKELY THAT THE WORK PROGRAM WILL CONSIST INITIALLY OF DISCUSSIONS ON FOUR TO SIX ISSUES (TWO OR THREE PROPOSED BY EACH SIDE), ADDITIONAL TOPICS COULD BE TAKEN UP AS APPROPRIATE AND AS MUTUALLY AGREED BY THE TWO GOVERNMENTS. THE INDIVIDUAL WORKING GROUPS CAN PROCEED INDEPENDENTLY, AND THE RESULTS OF THEIR NEGOTIATIONS CAN BE IMPLEMENTED AT VARIOUS TIMES DEPENDING UPON THE AGREEMENTS' SCOPE AND COMPLEXITY, AND THE DOMESTIC PROCEDURAL REQUIREMENTS OF EITHER GOVERNMENT.

IMPLICATIONS OF EXPANDED U.S.-MEXICAN TRADE TIES FOR THE BORDER REGION, INCLUDING NEW MEXICO

WE ARE ALREADY SEEING A GREAT DEAL OF ECONOMIC COOPERATION TAKING PLACE IN THE BORDER REGION AS A RESULT OF THE "MAQUILADORA" OPERATIONS. THEY HAVE GROWN DRAMATICALLY IN NUMBER IN THE LAST SEVERAL YEARS AND NOW FURNISH MEXICO WITH ITS SECOND LARGEST SOURCE OF FOREIGN EXCHANGE EARNINGS AFTER PETROLEUM.

THE SUCCESS OF THE "MAQUILADORA" OR IN-BOND ASSEMBLY PROGRAM RESULTS FROM COMPATIBLE, BUT INDEPENDENT, LEGAL STRUCTURES IN THE TWO COUNTRIES. MEXICO INSTITUTED THE BORDER INDUSTRIALIZATION PROGRAM IN 1965 TO ENCOURAGE THE ASSEMBLY OF U.S.-PRODUCED COMPONENTS IN MEXICO, TAKING ADVANTAGE OF MEXICO'S SURPLUS OF LABOR AND THE COUNTRY'S COMPETITIVE WAGE STRUCTURE. SECTIONS 806.30 AND 807.00 OF THE TARIFF SCHEDULES OF THE UNITED STATES (TSUS) PROVIDE, IN GENERAL, THAT DUTY WILL BE ASSESSED ONLY ON THE VALUE-ADDED IN A FOREIGN COUNTRY, EXEMPTING THE VALUE OF U.S.-ORIGIN COMPONENTS. THE MAJORITY OF SHIPMENTS FROM MEXICO'S "MAQUILADORA" OPERATIONS ENTER THE UNITED STATES UNDER ONE OF THESE TARIFF PROVISIONS.

THE "MAQUILADORA" PROGRAM HAS RESULTED IN SUBSTANTIAL BENEFITS FOR BOTH ECONOMIES. FOR MEXICO, THE SECTOR NOW COMPRISES ABOUT 1,000 PLANTS EMPLOYING ROUGHLY 275,000 MEXICANS. SUCH PLANTS GENERATED NEARLY $1.4 BILLION IN FOREIGN EXCHANGE FOR MEXICO IN 1986. FOR THE

UNITED STATES, THE PRODUCTION-SHARING OPERATIONS ENABLE U.S. COMPANIES TO REMAIN COMPETITIVE IN THE FACE OF EVER-INCREASING INTERNATIONAL COMPETITION.

ALMOST ALL OF THE "MAQUILADORA" PLANTS ARE U.S.-OWNED, USE U.S. EQUIPMENT AND TECHNOLOGY, AND SOURCE THEIR COMPONENTS FROM THROUGHOUT THE UNITED STATES. MEXICO'S PROXIMITY TO THE U.S. MAKES IT POSSIBLE FOR THE OPERATIONS TO INCORPORATE A MUCH HIGHER LEVEL OF U.S. CONTENT IN THE MEXICAN-ASSEMBLED GOODS THAN IS USUALLY THE CASE FOR SUCH OPERATIONS IN MORE DISTANT LOCATIONS, SUCH AS ALONG THE PACIFIC RIM. GOODS COMING FROM MEXICO OFTEN HAVE AS MUCH AS 95 PERCENT U.S. CONTENT, COMPARED WITH LEVELS AVERAGING AROUND 50 PERCENT FOR SUCH GOODS ASSEMBLED ELSEWHERE. THE COMMERCE DEPARTMENT ESTIMATED THAT APPROXIMATELY 75,000 U.S. WORKERS WERE EMPLOYED PRODUCING THE $3.0 BILLION IN COMPONENTS SHIPPED TO MEXICO FOR USE IN THE "MAQUILADORAS" IN 1986.

THE BENEFITS FLOWING FROM THE "MAQUILADORA" OPERATIONS ARE PERHAPS MOST VISIBLE IN THE BORDER REGIONS. AS THE U.S. INTERNATIONAL TRADE COMMISSION NOTED IN ITS NOVEMBER 1986 REPORT ON "THE IMPACT OF INCREASED UNITED STATES-MEXICO TRADE ON SOUTHWEST BORDER DEVELOPMENT," THE "MAQUILADORAS" HAVE CONTRIBUTED DIRECTLY TO THE ECONOMIC HEALTH OF THE BORDER COMMUNITIES IN SEVERAL WAYS:

> AN ESTIMATED 40 TO 60 PERCENT OF THE WAGES EARNED IN THE MAQUILADORAS ARE SPENT IN RETAIL OUTLETS IN THE UNITED STATES. MANY OF THE MANAGERIAL AND TECHNICAL PERSONNEL EMPLOYED IN THE MAQUILADORAS LIVE IN THE SISTER CITY IN THE UNITED STATES ADDING TO THE DEMAND FOR RETAIL SERVICES. IN ADDITION, THE MAQUILADORAS HAVE CREATED A DEMAND FOR INDUSTRIES THAT SUPPORT OR CONTRIBUTE TO THEIR OPERATIONS INCLUDING WHOLESALING SERVICES AND THE PRODUCTION OF INDUSTRIAL EQUIPMENT SUCH AS TOOL AND DIE MANUFACTURING AND METAL CUTTING. (P. 24)

IN DISCUSSIONS WITH MEXICAN OFFICIALS, U.S. POLICYMAKERS SOMETIMES HAVE POINTED TO THE "MAQUILADORA" SECTOR AS AN EXAMPLE OF THE DYNAMIC GROWTH THAT CAN RESULT FROM ECONOMIC COOPERATION BETWEEN THE TWO COUNTRIES. THE "MAQUILADORA" SECTOR HAS BEEN SUCCESSFUL BECAUSE IT OPERATES WITH A LESSER DEGREE OF GOVERNMENT REGULATION THAN MOST INVESTMENT ACTIVITIES IN MEXICO. MEXICO ALLOWS THE OPERATIONS TO BE 100 PERCENT FOREIGN-OWNED AND EXEMPTS EQUIPMENT AND COMPONENTS IMPORTED FOR USE IN THE OPERATIONS FROM MEXICAN DUTIES AND OTHER CUSTOMS REGULATIONS. THESE FACTORS, TOGETHER WITH FAVORABLE MEXICAN EXCHANGE RATES AND COMPETITIVE CONDITIONS IN THE UNTIED STATES, COMBINE TO MAKE PRODUCTION-SHARING ACTIVITIES IN MEXICO A VERY ATTRACTIVE OPTION FOR NUMEROUS U.S. COMPANIES.

CONCLUSION

MEXICO AND THE UNITED STATES SHARE MANY COMMON ECONOMIC INTERESTS. THE BILATERAL FRAMEWORK AGREEMENT CAN BEST BE SEEN AS A PROCEDURAL MECHANISM WHICH SUPPLEMENTS THE GATT, AND WHICH WILL PERMIT THE DEVELOPMENT OF A MUTUALLY BENEFICIAL BILATERAL ECONOMIC RELATIONSHIP. WHILE THE FRAMEWORK AGREEMENT IS MUCH MORE LIMITED IN

SCOPE THAN OUR CURRENT NEGOTIATIONS WITH CANADA ON A FREE TRADE AREA, THE ADMINISTRATION BELIEVES THAT THE FRAMEWORK WILL PLAY AN EXTREMELY IMPORTANT ROLE IN U.S.-MEXICO ECONOMIC RELATIONS.

IT WILL LEAD TO GREATER COOPERATION OVERALL BY BUILDING ON THE TRADE REFORMS MEXICO ALREADY HAS INITIATED, IMPROVING COMMUNICATION BETWEEN THE TRADE AND INVESTMENT OFFICIALS IN BOTH GOVERNMENTS, AND CREATING MOMENTUM IN THE ECONOMIC SPHERE THAT CAN SHAPE THE TENOR OF FUTURE U.S.-MEXICO TRADE AND INVESTMENT TIES. THE FRAMEWORK AGREEMENT SHOULD LEAD TO GREATER STABILITY IN U.S.-MEXICO TRADE AND INVESTMENT RELATIONS AND, IN THE LONG RUN, EXPAND TWO-WAY TRADE AND INVESTMENT FLOWS BY LIBERALIZING MARKET ACCESS, REGULATIONS AND OTHER IMPEDIMENTS IN SPECIFIC AREAS. BY PROVIDING A MEANS FOR RESOLVING DISPUTES AT EARLY STAGES, THE FRAMEWORK AGREEMENT ALSO SHOULD ENABLE THE TWO COUNTRIES TO ESTABLISH MORE HARMONIOUS TRADE AND INVESTMENT RELATIONS AND MINIMIZE MISUNDERSTANDINGS.

THE U.S. AND MEXICAN ECONOMIES ARE CLOSELY INTERLINKED. BOTH COUNTRIES HAVE MUCH TO GAIN FROM EXPANDING TRADE AND INVESTMENT TIES, AND IN SEEKING WAYS TO RESOLVE DISAGREEMENTS AT THE EARLIEST POSSIBLE STAGE. THE FRAMEWORK AGREEMENT WILL ASSIST BOTH COUNTRIES IN PURSUING THOSE OBJECTIVES.

MEXICO FACES THE CHALLENGE THIS YEAR AND NEXT OF RECOVERING FROM ITS 1986 RECESSION AND ESTABLISHING THE CONDITIONS THAT WILL CREATE A GROWING AND DYNAMIC ECONOMY IN THE FUTURE. THE UNITED STATES SHARES A ROLE IN THAT UNDERTAKING. WE ARE MEXICO'S PRINCIPAL TRADING PARTNER, AND THE DYNAMISM AND OPENNESS OF OUR OWN ECONOMY DIRECTLY AFFECT MEXICO'S ABILITY TO GROW THROUGH EXPORTING. IN ADDITION, THE HEALTH OF THE OVERALL BILATERAL ECONOMIC RELATIONSHIP HAS SIGNIFICANT IMPLICATIONS FOR THE BORDER REGION.

HISTORICALLY, A MORE PROSPEROUS MEXICO HAS MEANT A MORE PROSPEROUS U.S. SOUTHWEST. CONVERSELY, ECONOMIC DOWNTURNS ON EITHER SIDE OF THE BORDER HAVE DIRECT AND MEASURABLE EFFECTS ON THE OTHER SIDE. WE BELIEVE THE BILATERAL FRAMEWORK AGREEMENT, BY ESTABLISHING THE GOVERNMENT-TO-GOVERNMENT MECHANISM FOR FORGING CLOSER TRADE AND INVESTMENT TIES BETWEEN THE U.S. AND MEXICO, WILL OPEN UP NEW COMMERCIAL OPPORTUNITIES IN BOTH NATIONS. THE REGIONS ON BOTH SIDES OF THE BORDER, TO THE EXTENT THAT THEY ARE POISED TO TAKE ADVANTAGE OF INCREASED BILATERAL EXCHANGES OF GOODS AND SERVICES AND NEW INVESTMENTS, SHOULD BENEFIT DIRECTLY FROM THE INCREASED BILATERAL COOPERATION WHICH THE FRAMEWORK AGREEMENT SEEKS TO ENGENDER. IN ADDITION, AS WE HAVE SEEN FROM THE "MAQUILADORA" EXAMPLE, INCREASED ECONOMIC ACTIVITY BETWEEN THE TWO NATIONS CREATES NUMEROUS "SPIN-OFF" ACTIVITIES, RANGING FROM CUSTOMS BROKERAGE AND FREIGHT FORWARDING OPERATIONS TO WAREHOUSING AND DISTRIBUTION CENTERS. REGIONAL FINANCIAL INSTITUTIONS ALSO BENEFIT FROM THE INCREASED

ECONOMIC ACTIVITY. SOME AREAS ALONG THE BORDER HAVE USED THE EXISTENCE OF NEARBY "MAQUILADORA" OPERATIONS AND FOREIGN TRADE ZONES AS MARKETING TOOLS FOR ATTRACTING POTENTIAL INVESTORS.

NEW MEXICO MAY BE ABLE TO TAKE ADVANTAGE OF THE GROWING BILATERAL TRADE AND INVESTMENT RELATIONSHIP BETWEEN THE U.S. AND MEXICO THROUGH DEVELOPMENT OF THESE AND OTHER RELATED ACTIVITIES. THE POTENTIAL, WE BELIEVE, IS ENORMOUS. MUCH OF THE PROMISE IN OUR ECONOMIC RELATIONS WITH MEXICO REMAINS AS YET UNTAPPED. WITH MEXICO ANXIOUS TO INCREASE ITS EXPORTS, AND WITH MEXICAN ENTREPRENEURS LOOKING FOR NEW COMPETITIVE OPPORTUNITIES IN THE UNITED STATES AND ABROAD, THIS IS A FORTUITOUS TIME TO "LOOK SOUTHWARD."

MEXICO IS UNDERGOING A TREMENDOUS TRANSITION IN ITS TRADE POLICIES, AS WELL AS ITS OUTLOOK ON INTERNATIONAL TRADE, THAT SHOULD OPEN UP MANY NEW DOORS. WE ARE HOPEFUL THAT CHANGES IN THE INVESTMENT SECTOR WILL FOLLOW, CREATING ADDITIONAL OPPORTUNITIES. THE FRAMEWORK AGREEMENT WILL ADD IMPETUS TO THIS PROCESS AND HELP THE BILATERAL TRADE AND INVESTMENT RELATIONSHIP EVOLVE IN MUTUALLY COMPATIBLE DIRECTIONS.

TRADE AND INVESTMENT ALONE CANNOT SOLVE MEXICO'S DEBT PROBLEM, NOR CAN THEY PROVIDE A PANACEA FOR THE COUNTRY'S ECONOMIC DIFFICULTIES. YET, HISTORICAL EXPERIENCE HAS SHOWN THAT COUNTRIES CAN MORE EASILY ACHIEVE ECONOMIC GROWTH ONCE THEIR TRADE AND INVESTMENT POLICIES ARE

ALIGNED WITH MARKET CONSIDERATIONS AND EXIGENCIES. THE STEPS THAT MEXICO IS TAKING NOW SHOULD HELP TO SET IN PLACE THE UNDERLYING CONDITIONS FOR RENEWED ECONOMIC GROWTH. MEXICO'S SUCCESS IN ACHIEVING SUCH GROWTH WOULD PROVIDE A BETTER LIVELIHOOD FOR ITS PEOPLE, AS WELL AS PROVIDE A BOOST FOR THE ECONOMY OF THE U.S. SOUTHWEST.

WE WISH MEXICO WELL AS IT CONTINUES IN THIS EFFORT.

THANK YOU FOR THIS OPPORTUNITY TO PRESENT THE ADMINISTRATION'S VIEWS. I WOULD BE HAPPY TO ANSWER YOUR QUESTIONS.

Statement of Intent to Negotiate a Framework of Principles and Procedures Regarding the Trade and Investment Relations between the United Mexican States and the United States of America

I. The United Mexican States and the United States of America, in an effort to improve, in a mutually beneficial manner, their commercial and investment relations, recognize:

-- the need to develop a framework of principles and procedures which will foster sound trading and investment practices;

-- the status of the United Mexican States as a developing country;

-- the increasing importance of trade and investment to the economic growth and development of both countries;

-- the importance of promoting a more open and predictable environment for international trade and investment;

-- the need to avoid taking protectionist measures; and thus, of maintaining secure access to the market of the other for those goods and services which are traded under fair conditions; and

-- that such framework should be based on national and most favored nation treatment.

II. Accordingly, the United Mexican States and the United States of America have agreed to enter into negotiations of a framework agreement of principles and procedures to foster mutually beneficial trade and investment relations. Substantive issues for discussion may include, inter alia:

a) reduction of tariff and non-tariff barriers and other distortions of trade;

b) non-discriminatory and national treatment for the current and prospective foreign investment, and other investment matters;

c) ways and means to foster transparency of administrative actions of each party, when they relate to trade and investment between both nations; and

d) improved consultation and dispute settlement procedures.

III. While in the process of conducting these negotiations and thereafter, both parties agree to consult on a regular basis, including on measures being considered by either government, and seek to resolve promptly any disputes related to trade and investment.

Senator **Bingaman**. Thank you very much. I have a few questions, but I think the better course would be to ask Bob Herzstein if he would go ahead with his testimony. Then I'll ask the two of you a question or two.

If any of you are not aware, Bob is with Arnold & Porter Law Firm in Washington, specializes in international trade, and is the cochair of the Trade Subcommittee of the Mexico-United States Business Committee. We made that announcement earlier at lunch; we're pleased to have you here.

STATEMENT OF ROBERT E. HERZSTEIN, ATTORNEY, ARNOLD & PORTER, WASHINGTON, DC

Mr. **Herzstein**. Thank you very much. A prepared statement has been submitted to the staff and will be available for the record, and there are copies of it for anyone in the audience who wants to see a more——

Senator **Bingaman**. Let me just interrupt a second. There are copies of all the statements over on this table for anybody who would like a copy. And there's also signup booklets on both entrances, which we would hope everybody here would sign up before they leave. Go right ahead.

Mr. **Herzstein**. Yes, sir. In the interest of time, I will only summarize some of the highlights of my views on this issue. I think Melissa Coyle's testimony has covered it very systematically and very thoroughly, and I will try not to go over the same ground, but I will, of course, be happy to answer any questions you have.

I was delighted to learn of the—to hear the upbeat report that the Government witness has presented to us on the opportunities for achieving an agreement between the United States and Mexico, and also on the opportunities for Mexico-United States trade. I was also delighted, as you were, Senator, to hear that she was speaking for the administration as a whole. From my own Government service, I know how rare it is that one is able to do that, and that also speaks very well for the fact that the U.S. Government is behind this completely. It also speaks very well for the success of these new initiatives in United States-Mexico trade. I think, from what I can see, there is also a fair degree of unanimity among the Government departments in Mexico on this issue, so we really are approaching a very favorable time in our relationship.

If my testimony before you today could be boiled down to one basic point, it would be the following, that even though the United States and Mexico have followed different political paths, and charted different courses of economic development, the two nations now find themselves in a situation where increased cooperation, beyond the level that already exists, well beyond it, is necessary if the vast untapped potential for further growth and development that these two countries have is to be realized. If the two countries do not formalize a cooperative economic agreement, at this time, I think we will have missed a tremendous opportunity and the trade and investment which could better the lives of people on both sides of our 2,000-mile border will be much slower to arise, if indeed it arises at all. So we really do face a moment of historic opportunity.

The potential for trade between our two countries has been enormous for a long time, but very little of it has been realized. One gets some sense for the lack of achievement by contrasting the trade and investment relationship between the United States and Mexico with that which exists between the United States and Canada on its northern border. The amount of exchange between the United States and Canada is the greatest bilateral trade relationship of any two countries. Mexico certainly has the potential to do as much if not more. It's in an enviable potential compared with almost any other country in the world except Canada, of being right on the border of the world's largest and richest market, and having a great deal to offer to that marketplace. An interesting contrast also is to compare the development of Mexico over the last 20 or 30 years with the development of Korea or Taiwan or Brazil. All of them started more or less at the same point 20 or 30 years ago, the other countries have come along much farther in terms of economic growth, both overall and on a per capita basis, and they've done so by aggressively pursuing new opportunities opened up by the world economy over those years.

Fortunately, Mexico, as a result of its crisis of the early—its very severe economic crisis of the 1980's, has awakened to the opportunities that it has and has not only changed its internal policies, but also started a serious discussion with the United States about improving the trading relationship.

It's our feeling that the reason the trade relationship has not developed better is that there was a lack of a shared vision between Mexico and the United States of what the two countries could accomplish. There was also a great deal of unpredictability in the behavior of each of the Governments as it affected both trade and investment transactions with the other, and that unpredictability quite naturally discouraged businesses from investing money, time, and energy in the effort to trade across the border. If there's anything a businessman dislikes, it's unpredictability.

If you want to improve trade, you have to think in terms of a 20- or 30-year cycle in which businessmen do long-term planning. They invest in the technology and manufacturing resources and the people that are necessary to service a market over a long period of time, and we have to hope that conditions can be created which will allow Mexican businessmen to invest in order to serve not only the Mexican, but the American market. American businessmen to invest in order to serve not only their market, but the Mexican market, and both of them indeed to invest together to serve markets in the rest of the world. So unpredictability has been a second cause of the problem, and the third has been the lack of an effective dispute resolution mechanism so that problems that did occur tended to escalate to a political and emotional level rather than being taken care of quietly on their merits, which can be accomplished with most problems in the world of international trade.

We feel that the bilateral agreement does address these obstacles. Ms. Coyle has described the principles and the provisions of the proposed bilateral agreement. We think the basic principles set forth in it would provide a shared vision. We're not familiar with the details of the agreement as it's being negotiated, but if it does contain a systematic consultation procedure, that should go a long way toward reducing the unpredictability and also confining and resolving disputes in an effective way. And finally, if the agreement, as we understand it will, provides an ongoing work program for bringing the two countries together sytematically to attack the remaining substantive problems and to open up additional opportunities between the two countries, that will be really what we have been trying to accomplish in our business committee over the last 6 or 7 years that we have been working on this project.

Finally, I might just indicate my own views very briefly about the opportunities for New Mexico business that this agreement might create. There are certainly others that are much more knowledgeable on this than I am, and I will listen with interest to what they have to say. Just looking at it from the point of view of someone in Washington who has been working for some years on Mexico-United States trade, I would make one or two comments. First I think the agreement is extremely timely, because it will be coming at a time when there is a new sense of confidence in Mexico as a result of the Mexican Government's new policies of the last few years of opening up the economy to the world, privatizing the ownership of companies in the economy, and trying to establish a more sound macroeconomic policy. There is a new confidence. Mexican capital is now beginning to flow back to Mexico. There is liquidity in the private sector, which was not present until recently. The Mexican stock exchange is booming as evidence of a new sense of trust in the opportunities there, and for the first time in many years, Mexican companies are beginning to do long-range planning. So on that side of the border, there are going to be confident, optimistic, forward-looking businessmen ready to deal with people from the American side.

It's also timely on the American side, because the United States is for the first time beginning to wrestle with the problems of its own involvement in the international economy. American businesses are recognizing, through very sad experience, that they have a very severe problem of competing in world markets. I think there is a good chance that a number of them will recognize that by combining forces, combining resources with companies in Mexico, they may well be able to compete more effectively in international markets.

The maquiladoras are only, in my view, the beginning of evidence of the opportunities to—for effective economic cooperation between our two countries. I think there will also be a great deal of opportunity for businessmen to invest directly in Mexico. There's only $5 billion worth of U.S. investment in Mexico now. Mexico ranked No. 13 in foreign countries as far as the amount of U.S. investment goes, even though it's very close to our border, and very high in terms of the amount of trade between us is very low in terms of investment. The Mexican Government is actively seeking investment now, and so there will be opportunities for American businessmen, including New Mexico businessmen, to invest in Mexico directly. There will also be opportunities, of course, for joint ventures, and I think it is important for any businessman looking at these events that we've been talking about and thinking what opportunities it raises for him to think very broadly, to think of ways to combine United States and Mexican resources for more effective global competition. That's really where the big opportunity lies for both of our countries. And I think the businessman who goes about that process systematically will find that there is a lot of opportunity for success.

New Mexico sits in the middle of a rapidly changing region. The political line between the United States and Mexico is rapidly decreasing in its significance. There is enormous new exchange of people, of ideas, of capital. New Mexico is in the position to benefit from that. It is the 49th of our 50 States at present, in terms of exports. That means it has a lot of room for improvement.

Senator **Bingaman**. Who's 50?

Mr. **Herzstein**. I think it's some State like Alabama or Mississippi, I'm not sure. I can check that.

Even though New Mexico is 49th in terms of exports, it's first in Federal research and development expenditures per capita. It's second in manufacturing investment per capita. It's third in the number of innovators, and it's third in university research and development per capita. All of these figures come from a study done by the Corporation for Enterprise Development, a private research group in Washington. So what we see, again, is a picture of unrealized potential. The resources are there, the market is going to be there, and the opportunities for New Mexico businessmen to work with Mexican businessmen are there. The world is their stage, they have the resources, it's only time now for them to begin to use them. Thank you, Senator.

[The prepared statement of Mr. Herzstein follows:]

PREPARED STATEMENT OF ROBERT E. HERZSTEIN

If my testimony before you today could be boiled down to one basic point it would be the following: Even though the United States and Mexico have followed different political paths, and have charted differing courses of economic development, the two nations find themselves in a situation where increased cooperation, beyond the level that already exists, is necessary if the vast, untapped potential for further growth and development is to be realized. Should the United States and Mexico not act to formalize a cooperative economic agreement, then trade and investment opportunities which could better the lives of people on both sides of our 2,000-mile common border will be slow to arise, or may not arise at all.

Any trade and investment agreement should be viewed as not only creating new opportunities in the United States and Mexico, but as creating new opportunities in third-country markets as well. Today, the United States finds itself competing in a rapidly changing world marketplace against nations which have been quick to exploit global trade and investment possibilities. Some of the gains resulting from their actions have come at the expense of the United States. However, should any U.S.-Mexican cooperative economic agreement be signed, a marriage of the technological, capital, and human resources of our two countries may bring forth products which could hold their own against the goods produced by the Japans, Taiwans, and South Koreas of the world.

According to a study done by the Corporation for Enterprise Development, a private research group in Washington, D.C., New Mexico itself can only benefit from such a course of economic cooperation. The Land of Enchantment currently ranks forty-ninth among the fifty states in exports. Yet the same study ranks New Mexico:

- first in federal research and development per capita;
- second in manufacturing investment;
- third in the number of innovators;
- third in university research and development per capita.

Even given the current defense industry bias of the state's economy, the study clearly shows that New Mexico already has in place the tools necessary to take advantage of trade and investment opportunities brought by a U.S.-Mexico cooperative economic agreement.

New Mexico today sits squarely in the middle of a changing region. The movement of people, ideas, and capital across the border has engendered a social, cultural and economic zone that is divided only by a political line. Sometimes, even the political line has little significance. A recent story in the *Wall Street Journal* reported that the two cities of Laredo and Nuevo Laredo now share a baseball team, the Tecolotes, or Owls. Half of the home games are played north of the border; half are played south of the border. Player introductions and game commentary are done partly in English and partly in Spanish. The team has a loyal following on both sides of the river, and its management hopes to have the 1988 Mexican League All-Star game played in the home ballpark north of the Rio Grande.

The Tecolotes are but one example of the many close links that already exist between the two nations. The economic statistics reveal our interdependence in clearer detail. In 1986, the two nations traded roughly $30 billion worth of goods. The United States is already Mexico's largest trading partner, purchasing 67 percent of all of Mexico's exports. Of the imports into Mexico, 62 percent originated in the United States. If one were to rank our overseas markets, Mexico would be listed as the third largest. United States direct investment in Mexico now totals over $5 billion.

Even the numbers do not tell the full tale of the relationship between the two nations. Simply put, we have reached the point where actions on one side of the border impact directly the other nation. A clear demonstration of this was the devastation that befell U.S. border businesses after the 1982 devaluation of the peso.

In 1982, the Mexican economy was in serious trouble. Inflation was rampant, its productive capacity stagnant, and its currency losing value daily. The incoming administration of President Miguel de la Madrid faced two unenviable choices. The new President could attempt to bring Mexico back from economic chaos by continued reliance on traditional policies such as strong central governmental control over the economy and promotion of import substitution. Alternatively, the President could turn away from decades of prevailing economic thought and opt to chart a new economic course involving increased reliance on the private sector, increased foreign investment, and greater commercial links to the world economy. To President de la Madrid's credit, he chose to follow the new course.

Under President de la Madrid, Mexico is making important strides toward coming to grips with its fundamental economic problems. The current administration is moving away from long-held business practices through a series of economic liberalization measures. These measures may be categorized as: greater interaction between Mexico's economy and those of other nations; greater reliance on the flexibility and energy of private enterprise, and increased foreign investment in Mexico as a way to increase that country's productivity and competitiveness.

As a means of increasing Mexico's economic interaction with those of other nations, President de la Madrid led Mexico into the General Agreement on Tariffs and Trade in August 1986. Mexico also agreed to sign several codes covering the conduct of international trade, codes the United States helped negotiate. In a separate but related action, Mexico agreed to lower its tariff levels so that by October 1988 no tariff will be greater than 30 percent, a far cry from the 100 percent tariffs of previous years.

The Mexican government is choosing to rely on the private sector by having it take over some of the functions historically controlled by the government. Since 1982, the number of state enterprises, the parastatals, decreased from a high of 1,200 to a current level of 600. Some of the decrease came from consolidation of state enterprises, but substantial privatization has occurred as well. The government has also recently sold to private individuals shares in banks that have been previously entirely government owned.

Finally, the de la Madrid Administration is actively seeking foreign investment. The 1973 law which governs foreign investment in Mexico sets a limit of 49 percent foreign ownership of a Mexican company unless specific exception is made. In recent years, the de la Madrid Administration has allowed exceptions up to 100 percent foreign ownership to occur, particularly where foreign ownership would bring to Mexico new technologies. Under this more pragmatic and flexible approach to the application of the 1973 law, U.S. firms such as Hewlett-Packard and IBM have expanded their operations in Mexico.

The economic liberalization measures listed above serve as a backdrop against which one should view the August 1986 announcement by Presidents Reagan and de la Madrid to seek a bilateral framework to govern U.S.-Mexican trade and investment relations.

The agreement would be a framework to govern future commercial and investment relations. It would not be the same as a free trade agreement such as we have with Israel, and are negotiating with Canada. I understand that the agreement may have the following structure.

First, a statement of shared principles providing a common reference point for government policy on both sides of the border that might affect bilateral commercial activities.

Second, a commitment to engage in consultation upon request.

Third, the creation of a method or mechanism for settling disputes so that trade or investment disagreements between the two countries do not escalate into political problems.

Fourth, a commitment to negotiate certain substantive issues once the framework itself is in place. Some of the current issues of interest to U.S. businessmen are enhanced protection for intellectual property, investment and electronics.

A bilateral agreement would formally recognize what you here in the Southwest already know -- that the United States and Mexico have far more in common than they have in disagreement. A bilateral agreement would recognize that two nations, acting in concert, can take advantage of opportunities that would be denied either nation acting alone. Finally, a bilateral agreement would inject greater predictability into the economic relations between the two countries so that businessmen would be encouraged to make long term investments of their resources, time and energies in both Mexico and the U.S., with a view to producing in and serving both markets.

Up to this point, I have been addressing the bilateral framework agreement within the broad outlines of recent changes in Mexico's economic policies and on the general premise that the two nations acting together can achieve more than they can acting alone.

I would like to conclude my testimony today by attempting to translate these broad themes into an analysis of what a commercial accord might mean for New Mexico.

New Mexico's economy seems to be at a crossroads. Revenues from, and employment in, the extractive industries such as oil and mining have decreased. Construction, which has helped contribute to the state's overall growth the past three years, has slowed. Manufacturing showed little growth statewide. Were it not for tourist dollars, and the steady flow of federal funds to the research labs and military bases, New Mexico's economy would have exhibited the same deep stresses as the economies of Texas and Oklahoma.

New Mexico itself is a microcosm of all that the United States brings to the bilateral relationship with Mexico. It has communications and transportation infrastructure, research capabilities, cutting edge industries (including semi-conductors and robotics), and capital.

As I indicated at the beginning of my testimony, the Corporation for Enterprise Development ranked New Mexico forty-ninth in exporting among all the fifty states. Most of the state's exports are agricultural products. Proportionately few New Mexico firms, among the thousands that exist, export to Mexico. Yet the state also has vast resources at its disposal which could promote joint ventures with Mexico.

One of the more potentially useful resources here in New Mexico seems to be the governmentally chartered Technology Innovation Centers which seek to provide assistance to innovators and businessmen. It is an interesting marriage of government, business and academia which could prove useful to any export or joint venture, through access to data, and analysis of current conditions at relatively low cost.

Another state asset is the research labs themselves. I am aware that their primary mission is defense related, but research into such new industries as biomedical instrumentation, ceramics, robotics, and semi-conductors can benefit the commercial sector as well as the national defense.

A third asset is the Centers for Technological Excellence Program. One of the centers is currently engaged in plant engineering of jojoba whose oil has vast commercial application. The plant has thus far resisted large scale commercialization. Should the center's work be successful, and commercialization become possible, then a union of the resources from New Mexico and Mexico can be achieved for the benefit of the region.

Finally, the state seems to offer a wide array of financing packages for businessmen including bonds, loans, loan guarantees, and grants to make use of in any export related or economic development venture.

This is certainly not an exhaustive list of advantages that New Mexico offers those interested in exporting from or investing in Mexico. New Mexico also has its historic linguistic, cultural and social links with Mexico which provide a common ground on which to do business.

Based on this thumbnail sketch, it seems to me that New Mexico should be among those states best poised to take advantage of a bilateral agreement with Mexico.

At the beginning of my testimony, I referred to the need to act to formalize a cooperative economic agreement in order to take advantage of trade and investment opportunities. I hope those words carry with them a sense of urgency because I believe that some promptness of action is necessary.

Both Presidents Reagan and de la Madrid leave office in 1988. For both nations, the electoral season has already begun. I am concerned that the inevitable domestic focus and distractions of an election campaign, when combined with the exit of the two leaders, may cause us to lose the moment of opportunity that now exists. Should the moment slip without the agreement being signed and ratified, the two nations will have lost a real chance to improve the lot of their citizens.

Senator **Bingaman**. Thank you, very much. Let me ask some very practical questions. The statement of intent to enter into these negotiations was signed by Secretary Brock when he was the U.S. Trade Representative, as I understood your statement, Melissa.

Ms. **Coyle**. Yes, sir.

Senator **Bingaman**. In the framework that's being set up, to what extent is the Department of Commerce responsible for the ongoing activities under this agreement and to what extent are the U.S. Trade Representative or others in the Federal Government responsible?

Ms. **Coyle**. In Washington among the executive branch there is a structure for dealing with any trade issues. It's formally called the Trade Policy Staff Committee, and it's chaired by the Office of the U.S. Trade Representative. So within that structure, the Commerce Department, State Department, Agriculture Department, Treasury, and Labor Departments, the principal ones, all work together on any trade issues. The U.S. Trade Representative is the lead agency on the framework agreement. They have the negotiating responsibility for it, but from personal experience, I can assure you that the Commerce Department is very integrally involved in this particular project and we are advising the USTR continuously on the form it should take.

Senator **Bingaman**. Would the expectation be that once this agreement is signed, we have permanent staff assigned to work on these various items that are identified for further negotiation—the works program, I think that you referred to it as—and also the resolution of disputes that have arisen? How's that going to be handled? It that something that will be done on a case-by-case basis, or is there going to to be a permanent office within the Department of Commerce and U.S. Trade Representative's office that will have that responsibility?

Ms. **Coyle**. You're a little bit ahead of us, Senator, in terms of looking at the bureaucratic structure here, but——

Senator **Bingaman**. I thought this was going to be signed 2 weeks from Thursday or something.

Ms. **Coyle**. I think the expectation would be that each of—let's say that we choose six issues to work on in the program between the two governments, and I could see six groups of people, whether or not they would be assigned officially to Mexico relations, but they would be experts in their own rights on whatever those issues are, they would form technical working groups to meet with counterparts on the Mexican side and carry out bilateral discussions. I suspect as a practical matter, those of us who work on Mexico the whole time, will be the coordinators for the places where all those groups will come together in terms of their findings, their analysis, and their recommendations.

Senator **Bingaman**. But the short answer is, you can't tell me where the buck will stop in case the thing doesn't work once it's signed. Would it stop with the U.S. Trade Representative?

Ms. **Coyle**. Since they have the negotiating charge in the U.S. Government on foreign trade and investment issues, I suspect that's where it would stop, sir.

Senator **Bingaman**. Let me ask as to how broad you perceive this to be. One issue that has plagued New Mexico for the last hundred years or so is that we have not had crossings with Mexico or at least what we perceived to be adequate crossings. We have Columbus, we have Antelope Wells, we do not have Inapra and we are now just beginning at Santa Theresa. That's one example of what I might refer to as a basic infrastructure problem, which, as I see it, impedes trade between the two countries.

When I was in El Paso yesterday, the El Paso Foreign Trade Association was complaining, of course, about lack of bridges and lack of adequate facilities to handle the trade which has occurred in that community as a result of the maquila program. Would you see these types of infrastructure issues about how to increase the number of crossings on the border and improved facilities to be an issue that would be the subject of these negotiations, or is that someone else's responsibility?

Ms. **Coyle**. The lines do cross a little bit, at least with the Commerce Department. There is a commission on border bridges and crossings, which the Commerce Department is a member of. It's chaired by the State Department. It's not an issue that fits very neatly within the framework agreement, at least on the U.S. side. There are agencies such as the General Services Administration and, I think, say, the Army Corps of Engineers that might get involved in actual construction kinds of questions. But I can at least speak for the Commerce Department in saying that we're very well aware of some of the bottlenecks that are occurring at the border and we would like to find a way to ameliorate that. It may be that the State Department group is, perhaps, the better one to do that, but Commerce takes a very strong interest in trying to expand those crossings.

Senator **Bingaman**. Well, I guess the sort of bottom line question is will this framework agreement facilitate the resolution of those kinds of problems as well or is it really separate and distinct from the resolution of those kinds of problems?

Ms. **Coyle**. I would say separate and distinct for the most part in that the framework aims to address questions of policy between the two governments, and to the extent that, let's say, in a policy framework realm, both sides decide that to facilitate trade and investment that it is an appropriate policy to pursue more bridges and border crossings, that could be done in framework, but the actual carrying out of the agreements to build the bridges and to get the permits and so forth would have to take place in the other groups.

Senator **Bingaman**. Let me ask each of you to just comment, if you would, on the trade bill which was passed out of the House, H.R. 3. That bill recommends the creation of a United States-Mexico Bilateral Commission, and also a bilateral United States-Mexico economic summit.

Would either of you have an opinion you want to express as to the value of such a thing. I gather that is even broader than the type agreement we're discussing here today, but perhaps it would in some ways encompass the same kinds of issues along with a lot of other things as well. Is this a good thing or do we have too many commissions already?

Ms. **Coyle**. I can tell you, Senator, that the administration comment on that particular part of the bill was that it did seem to duplicate what we were already trying to do in this particular negotiation. I have seen that part of the bill. I think it has some, some valuable parts in it in terms of the issues that ought to be addressed. It may be that the framework agreement can be a flexible enough instrument to address those concerns without establishing another commission.

Senator **Bingaman**. Bob, did you have a point of view on that?

Mr. **Herzstein**. Yes, Senator. I agree. I think that the framework agreement will establish a mechanism for regular meetings between the two countries and I think there is some danger that the provisions of the trade bill would duplicate that and possibly confuse the situation. I think that I would rather see the trade bill in some form ratified or endorse the bilateral agreement as a whole. It seems to me that would be very close to the provision that's in there now, setting up a commission. It's almost—the provision that's in there now looks almost as though the authors of it were aware of the imminence of this bilateral agreement. I think that if the bilateral agreement is achieved this summer, it would be a greater contribution if the trade bill could or, if necessary, another piece of legislation to ratify the agreement as a whole.

Senator **Bingaman**. I guess what occurs to me, and I would be interested in any thoughts you've got on this, is that there are a series of other issues that are important between the two countries in addition to trade. We had testimony yesterday in Las Cruces that the number of Mexican students coming to this country for school has dramatically dropped since the devaluation of the peso. This was one thing that was seen as a very positive activity while it was going forward and now it's going forward at a very reduced rate. That's one example. For water disputes between the two countries I know we have a separate mechanism that looks into these problems. But for natural resource issues, drug trafficking problems along the border, immigration problems—there are a wide variety of things that the United States and Mexico have to talk about. I don't know that there's a regularized institutionalized way to consider the whole mix of relations. And perhaps, this kind of a United States-Mexico bilateral commission could fill that function.

Mr. **Herzstein**. Yes. I was speaking purely on the trade and investment issues, where I think the danger of duplication would exist. As far as the other areas, I wouldn't see the danger of duplication. Just how effective it would be is always hard to judge on these things. There is sometimes, as you know, a tendency for commissions to be created and to meet constructively for a year or two and then sort of lapse into routine or disuse. But I quite agree that there are a number of major issues between our two countries, and there are no institutionalized forms for dealing with them.

Senator **Bingaman**. OK.

Ms. **Coyle**. Senator, if I might add, I believe that there's one benefit in having a bilateral-commercial agreement in that you really can hone in on those issues without getting them linked up to a lot of other things that might be considered extraneous to commercial considerations.

Mr. **Herzstein**. Yes, I think that underlays my feeling too. It's important to pursue those independently and not have them linked, say, at the same meeting where you're talking about drugs or water rights or other things, because the commercial problems can then get pushed off the edge of the table.

Senator **Bingaman**. All right. Well, that's the bulk of the questions I had. I appreciate very much the testimony of both of you. Why don't we go forward with the second panel at this point. Thank you both for coming. Have a good trip in Mexico.

Ms. **Coyle**. Thank you, Senator.

Senator **Bingaman** The second panel is going to include Salvador Gonzalez Barney with the Economic Development and Tourism Department of the State of New Mexico, Ron Lohrding, Roberto Castillo, and Joe Zanetti. If they would all come forward. I understand Mr. Lohrding has a plane that he needs to catch and we don't want to interfere with that. He would like to go first, if that's acceptable with the rest of the panel. Ron, why don't you go ahead. We'll hear your statement and then ask you a few questions and let you go.

STATEMENT OF RONALD K. LOHRDING, PROGRAM DIRECTOR, ENERGY AND TECHNOLOGY, LOS ALAMOS NATIONAL LABORATORY, LOS ALAMOS, NM

Mr. **Lohrding**. Thank you very much, Senator.

Senator **Bingaman**. What time's your plane?

Mr. **Lohrding**. Four o'clock.

Senator **Bingaman**. You're in good shape.

Mr. **Lohrding**. I'm in good shape, yes. I'd like to extend some of the ideas that Mr. Herzstein mentioned in some of his testimony about the success of some of the newly industrialized countries of Taiwan, South Korea, Singapore, and Brazil, and try and tie that into the bigger picture and look at ways where we could take advantage of the capabilities in New Mexico to work with Mexico and the rest of Latin America to bring about more dynamic economic development in this hemisphere.

The U.S. trade deficit was the largest ever recorded by any country in 1986. Competitiveness is clearly a major concern to the economic vitality of our country. Our rivals in this area, Japan and the countries of Europe, and we, ourselves, are closely scrutinizing the process of research and development and its resulting technology to enhance roles in competitiveness. European, Japanese, and United States efforts to address our competitiveness through R&D in the short term will be reviewed here. Such efforts are desparately needed, but they are not the main subject of this testimony. They are included to show how important technology is to economic vitality and to suggest models of cooperation with Latin America that can address future needs. We go on to examine possible long-term contributions to the competitiveness that includes our neighbors in Latin America and the Caribbean. A technology partnership of the countries of the Western Hemisphere is proposed that would improve the scientific and technological infrastructure of the developing countries in the hemisphere, laying the foundations for future cooperative efforts to improve hemispheric competitiveness.

European countries are pooling their scientific and engineering resources today to win the race for new technologies that will enable market dominance in new products. A science and technology partnership is not proposed as an immediate solution to the competitiveness problem, but rather as an important investment that will yield returns to us and our neighbors as new markets open up in this hemisphere and economies improve in the long term.

In the remainder of the testimony, the recent indicators of declines in U.S. competitiveness and expenditures on R&D will be reviewed. The stance being taken by other countries or regions to enhance production efficiencies through increased R&D is reviewed after that. And finally we talk about the concept of a technology partnership with Latin America.

If I could use the viewgraph machine, I'll show some of the changes in competitiveness that's taking place in the world. Well, some of us scientists can't talk without a viewgraph machine.

If we examine the balance-of-payments situation over the last few years, we see that the imports are rising and particularly in the last few years, a dramatic change in terms of imports versus exports. And if we look over time at the balance-of-payments problem, we see the extreme difficulty that the United States is experiencing. If we look at the high-technology area, we notice that our real problem in the high-tech areas, in terms of balance of payments, are with the Japanese, which we run at a deficit of about $15 billion and with the newly industrialized countries of the Pacific Basin, Korea, Singapore, Taiwan, and Hong Kong. So we see an economic dynamic development in that region of the world that I would like to us try to duplicate in this region of the world.

We look at the U.S. trade situation with Latin America, we see here the Latin American heart of our trade balance is shown in the white and the crosshatches that total with the rest of the world. We look at 1975, we have positive trade balance with our allies in this hemisphere as well as with the rest of the world. By 1978, we're experiencing a negative balance-of-trade situation with the rest of the world, but we're still at a policy trade balance with our partners in this hemisphere. In 1983, we see a very dynamic change, part of this due to the very severe economic problems experienced in Latin America, and finally in 1986, we see that there's been more balance in our trade with Latin America but the worsening problem for the rest of the world.

If we're looking at high-tech industries, high-tech trade, how much are we investing in the high-tech areas? This is a bit complex in the number of countries that are represented on here, and it's difficult to measure the Soviet Union's exact expenditures on R&D. This includes defense spending as well as research in the nondefense areas. And if we look at it in terms of a percent of the gross national product, we see the United States in the middle and still, in 1985, spending the highest amount, but other countries closing that gap rapidly. And finally, if we just look at the large figures and look at total expenditures on R&D by our Government versus other countries in the world, we see that we spend an enormous amount more than the rest of the world.

With that, we have to ask the question then why, if that is happening, are we having such a balance-of-payments problem in the high-tech industry, and I contend that that has to do with the models for using the high-tech industries that other countries work with. For instance, as the Europeans became quite concerned about their competitiveness advantage, each of the Federal Governments in the various European countries started putting more of their resources into applied research in their national laboratories and in their universities to move those more rapidly into commercializable products. In addition, the European Economic Community has formed consortium among their various countries to attack particular areas. The first of these is ESPRIT, the European Strategic Program in Research and Development in Information. This is a program across all the European countries where they're trying to advance and catch up with the U.S. and Japan in advanced microelectronics, software, advanced information processing, office automation.

The second one is called BRITE, Basic Research in Industrial Technologies for Europe. This is to encourage new developments in metallurgy and to provide that kind of capability to the industries of Europe.

RACE, Research for Advanced Communication in Europe is formed to develop an integrated broad band communication network throughout Europe. So we see that area of the world pulling together its resources, having a national policy or multinational policy focused on technologies that can make a difference in economic competitiveness.

In Japan, the country that's been the most successful in moving technology into the marketplace. In research and development, sometimes it appears that we win the Nobel Prize and the Japanese win the market. We've got to do a better job of changing that. We certainly know how consumer electronics, television, stereo equipment has been dominated by the Japanese and their attempt is now to move into the computer area as well. They do a very clever job of using basic research which becomes an international commodity and moving that commodity into a commercializable product. They have an organization under MITI, which is the Ministry of International Trade and Industry, has formed a key technology center. This center examines the research being done around the world and provides that to their industrial firms where they think it can be advantageous. And then when their appears to be an area that has enormous economic potential, such as the new work in high temperature superconducting materials, they bring together a group, provide industry and their applied research laboratories and universities to work together in a consortium to try and dominate the world market in certain applications of this.

So, their emphasis is putting more money into the applied research, into the product-development areas, and although they are putting more money now into basic research, tend to use the basic research that's been around the world as a way to advance some of the technologies there.

The United States, as I showed in the viewgraphs, we put the largest amount into national R&D, and a lot of that's in basic research. I think we need to look more at how we do other kinds of applied research and work more closely with industry in the product-development area.

Both with the Japanese and with the Europeans, the Europeans are working together to try and establish market niches. The Japanese are in the middle of this dynamic area of growth in the Pacific where the newly industrialized countries of Taiwan and South Korea, particularly have made enormous inroads, have trained a large number of their people in Ph.D.'s, and master's degrees in the sciences and engineering, and we would like to see that kind of dynamic approach being established in a partnership with this country and the rest of this hemisphere to bring us into a competitive situation with the Japanese and European community. We think that would not only help people in the region, but would also help the United States by opening up—by having a more vigorous economy in Latin America, the potential for export of U.S. goods and products would increase. We would be importing more from there and the growth because of the lack of additional transportation costs would be beneficial to all.

Science and technology developments have been an integral factor in economic process of the industrialized and newly industrializing countries of Southeast Asia. In Latin America, however, technological change has not contributed significantly to economic growth, according to an executive of the Interamerican Development Bank. In a recent article, he states, "A long range growth strategy for Latin America must, therefore, be based around the attempt to increase total factor productivity."

It is clear that a greater investment in research and development must take place and incentives be provided for technological innovation and adaptation. We feel one way to do that would be to form a partnership in technology in the Western Hemisphere, and we think that on the U.S. side New Mexico should be one of the leaders in that activity. With our large scientific capability within the State, our large number of our citizens that are bilingual in both Spanish and English, and the fact that we share a common border with Mexico, we feel that this stage is ideal for forming the focal point in the United States for such cooperation.

At Los Alamos, we have been fortunate to have cooperative agreements with scientists in this hemisphere and have worked with them over a number of years. We currently work with Mexico with the Mexican Petroleum Institute and the Mexican Nuclear Institute, and have sister laboratory arrangements with both of those organizations. One of the things that was mentioned in a recent visit this month from the Mexican Nuclear Institution was the problem with having access to information. When their budget was cut severely, their journal subscription was cut. They don't have access to the newest information. We think that by linking the major research and development institutions throughout the hemisphere with the satellite connections, you could provide library facilities, joint computer activities, as well as the teaching of courses over satellite a possibility.

We think there are many things that could be done in this kind of a relationship. I don't have time to go into many of the details today, and I'll just summarize my statement.

The United States faces a decline in competitiveness that is injurious to the long-term economic well-being. Latin American countries face many severe economic problems and need to boost their exports. Economic interdependencies call for a coordinated effort to meet the challenges to the Western Hemisphere competitiveness in the long term.

Many countries of the world are focusing on applied research and product development as an important means to achieve or maintain competitiveness. Access to technological advances is a key ingredient. The European economic countries are pooling their resources to address today's problems. We must do the same with countries of the Western Hemisphere to lay the foundation for a coordinated approach in the future.

A technological partnership is required that will enhance the scientific infrastructure of Latin America, contribute to economic growth, and open new markets. Economic health and development is mutually beneficial to the United States and Latin America.

The national labs, universities, and the private sector of New Mexico and perhaps other border States should be the main U.S. participants because of strong scientific resources, our proximity to Latin America, and our Spanish language capabilities. Mexico also has scientific capabilities that will make them an important partner in exchanges with other countries in Latin America, while they benefit from exchanges with the United States.

Finally, technological requirements of development in Latin America deserve a high priority today, because they can lead to self-sustained economic growth and mutual trade benefits within the region. New Mexico can contribute and benefit from establishing strong supply links for technical know-how, leading to strong, two-way trade ties in the future. Thank you very much for the opportunity.

[The prepared statement of Mr. Lohrding follows:]

PREPARED STATEMENT OF RONALD K. LOHRDING

I. OVERVIEW

The 1986 U.S. trade deficit was the largest ever recorded by any country. Competitiveness is clearly a major concern to the economic vitality of our country. Competitiveness—the ability to produce and sell high-quality goods at costs lower than that of other countries—depends on several issues which are beyond the scope of this testimony, such as the rate of interest, the size of the federal deficit, exchange rates, and the level of investment by industry. However, one key ingredient is technology, which results from research and development (R&D), and is the focus of this paper.

Our rivals, Japan and the countries of Europe, and we, ourselves, are closely scrutinizing the process of R&D and its resulting technology to enhance R&D's role in competitiveness. European, Japanese, and U.S. efforts to address their own competitiveness through R&D in the short term are reviewed here. Such efforts are desperately needed but they are not the main subject of this testimony. They are included to show how important technology is to economic vitality and to suggest models of cooperation with Latin America that can address future needs. We go on to examine possible long term contributions to competitiveness that include our neighbors in Latin America and the Caribbean. A technology partnership of the countries of the Western Hemisphere is proposed that will improve the scientific and technologic infrastructure of the developing countries in this hemisphere, laying the foundation for future cooperative efforts to improve hemispheric competitiveness. European countries are pooling their scientific and engineering resources today to win the race for new technologies that will enable market dominance in new products. A pooling of Western Hemisphere resources today would have unbalanced contributions from all of the countries, but we wish to improve the balance of resources so that such cooperation is possible in the future. A science and technology partnership is not proposed as an immediate solution to the competitiveness problem but rather as an important investment that will yield returns to us and our neighbors as new markets open in this hemisphere and economies improve in the long term.

In the remainder of this testimony, the recent indicators of declines in U.S. competitiveness and expenditures on R&D are reviewed. The stance being taken by other countries or regions to enhance production efficiencies through increased R&D is reviewed in Section III. In Section IV, the concept of a technology partnership with Latin America is introduced. Section V summarizes the need for and benefits of such a partnership.

II. RECENT INDICATORS OF COMPETITIVENESS AND R&D

The United States had a merchandise trade deficit of about -$170 billion in 1986 (Figure 1). This represents more than a 600 percent increase over 1980 and the largest trade deficit ever recorded in history. This situation is now widely recognized as a threat to both current and future economic security. Comparable trade data for Mexico would show a negative balance of trade from the 1970s to a maximum of -$4.1 billion dollars in 1981, after which the trade balance became positive. A temporary, negative trade balance in the case of a developing country is not always a bad thing, however, because certain

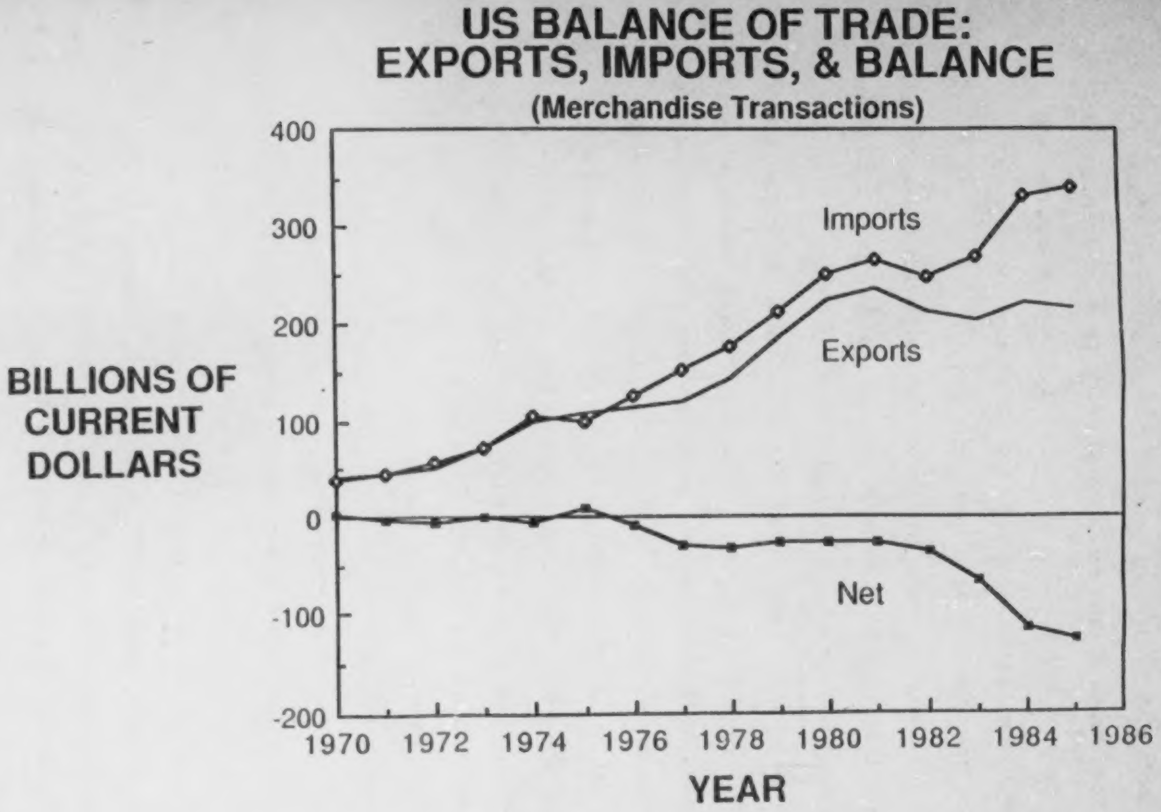
US BALANCE OF TRADE:
EXPORTS, IMPORTS, & BALANCE
(Merchandise Transactions)
BILLIONS OF CURRENT DOLLARS
400
300
200
100
0
-100
-200
1970
1972
1974
1976
1978
1980
1982
1984
1986
YEAR
Imports
Exports
Net

Figure 1

essential goods must be imported to build the infrastructure of the country. The problem of debt servicing in Mexico is a far greater drain on foreign reserves than the cost of imports is. Debt service has been significantly larger than the value of imports in some recent years, according to Inter-American Development Bank data.

The U.S. is Mexico's largest trading partner and Mexico is one of the U.S.' largest trading partners as well. The U.S. trade balance with Latin America is shown in Figure 2. Many complex issues underlie the change of the balance of trade portrayed in the figure, including the following: changing relative commodity prices; devaluation of Latin currencies; deep economic recession in Latin America; and a heavy debt burden combined with austerity measures that curtail imports in Latin America. According to U.S. Department of Commerce statistics, almost half of Latin America's exports go to the U.S. Although some analysts have blamed the Latin American recession for the U.S.' deepening trade deficit, the 1986 balance of trade with Latin America has actually improved since 1983. Owing to strong economic interdependencies, the economic health of all countries in the hemisphere is critical to U.S. and Latin strategic interests alike.

With the exception of the progressive Asian nations, the U.S. high-technology trade balance remains healthy in virtually all areas of the world (Figure 3). Figures 4 and 5 show R&D expenditures (including defense) for many of the countries of the Organization for Economic Co-Operation and Development (OECD). Figure 4 makes apparent the overwhelming dominance of the U.S. in total expenditures. As a percent of GNP, most of the OECD countries' expenditures on R&D had converged to a level of about 2.5% by 1985 (Figure 5). According to available figures

US BALANCE OF TRADE, 1975-1986

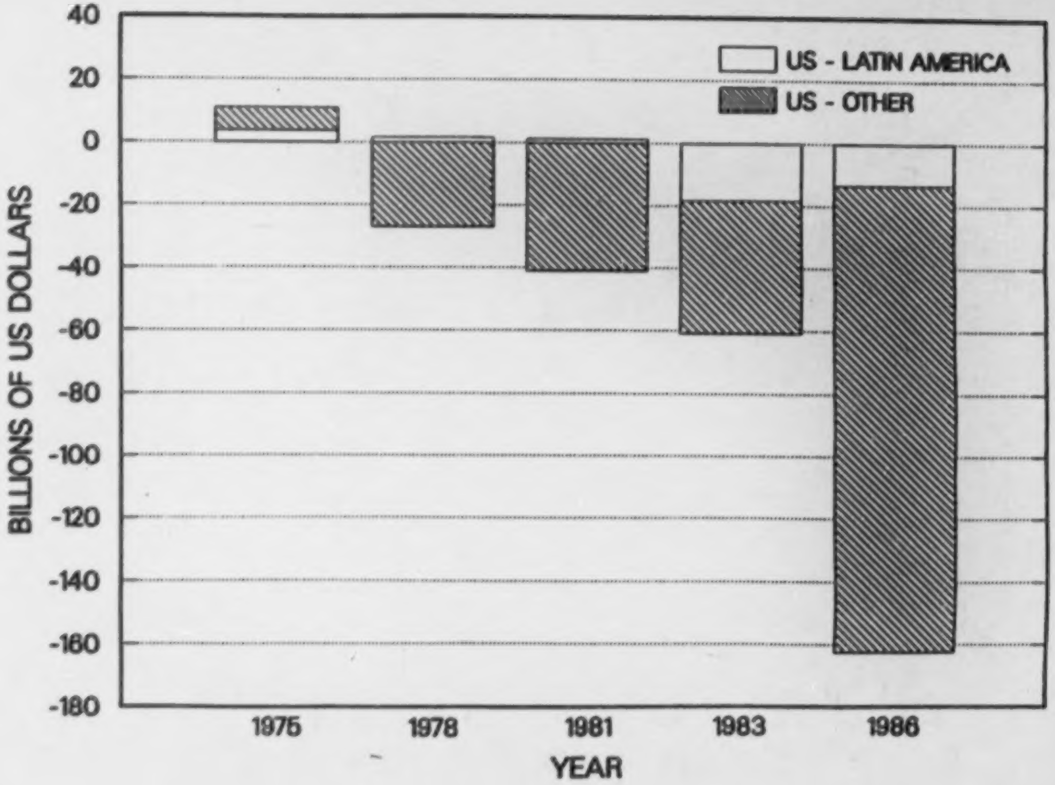

Figure 2

US TRADE BALANCE WITH SELECTED NATIONS FOR HIGH-TECHNOLOGY MANUFACTURED PRODUCTS[1]

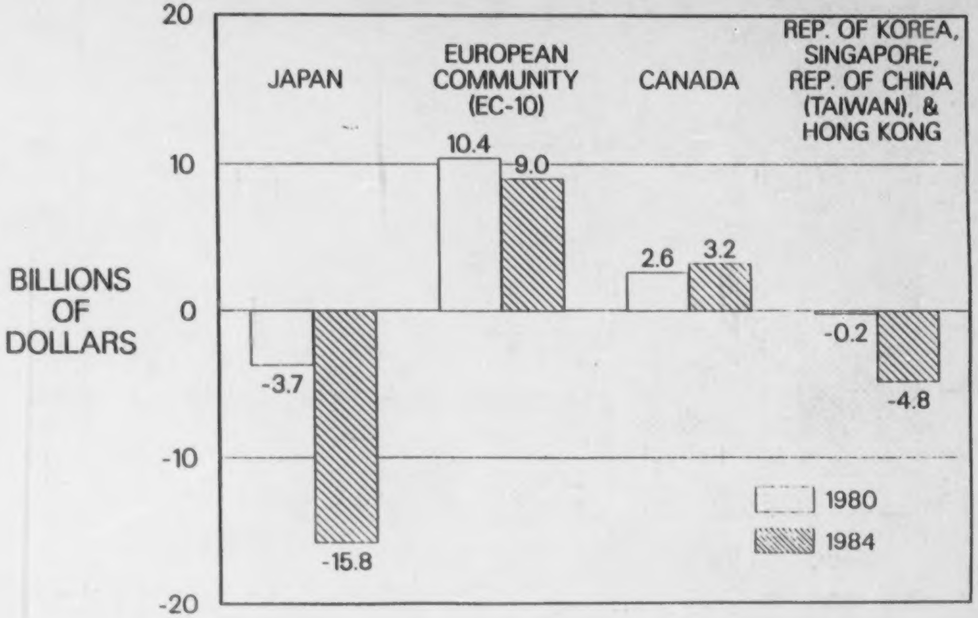

Figure 3

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[1] Using Dept. of Commerce definition of high-technology.

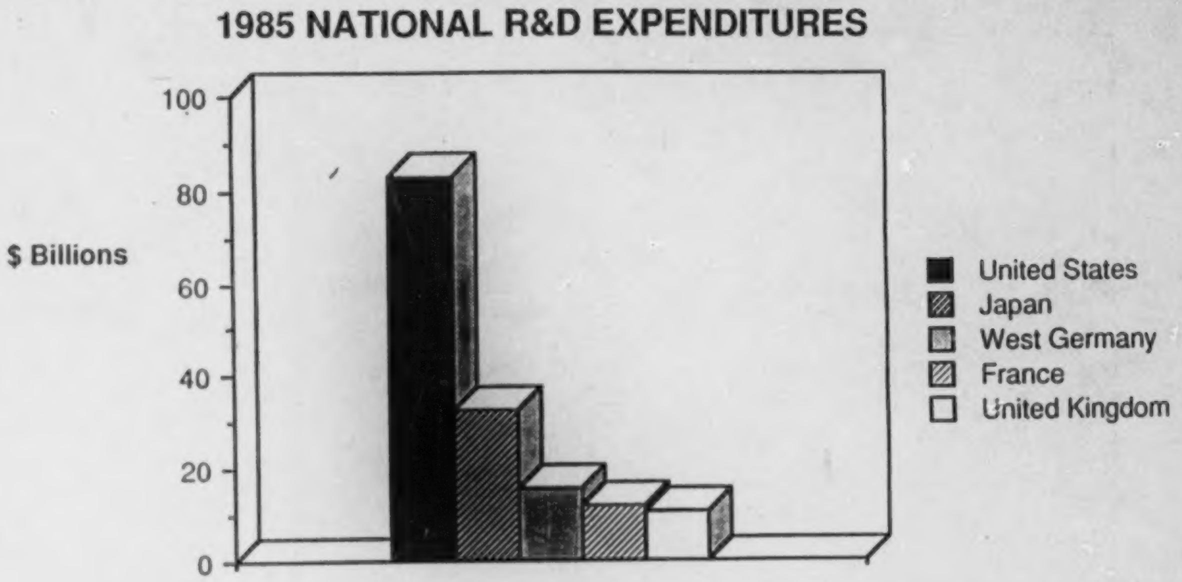
1985 NATIONAL R&D EXPENDITURES
$ Billions
100
80
60
40
20
0
United States
Japan
West Germany
France
United Kingdom

Figure 4

R & D EXPENDITURES AS A PER CENT OF GNP BY COUNTRY

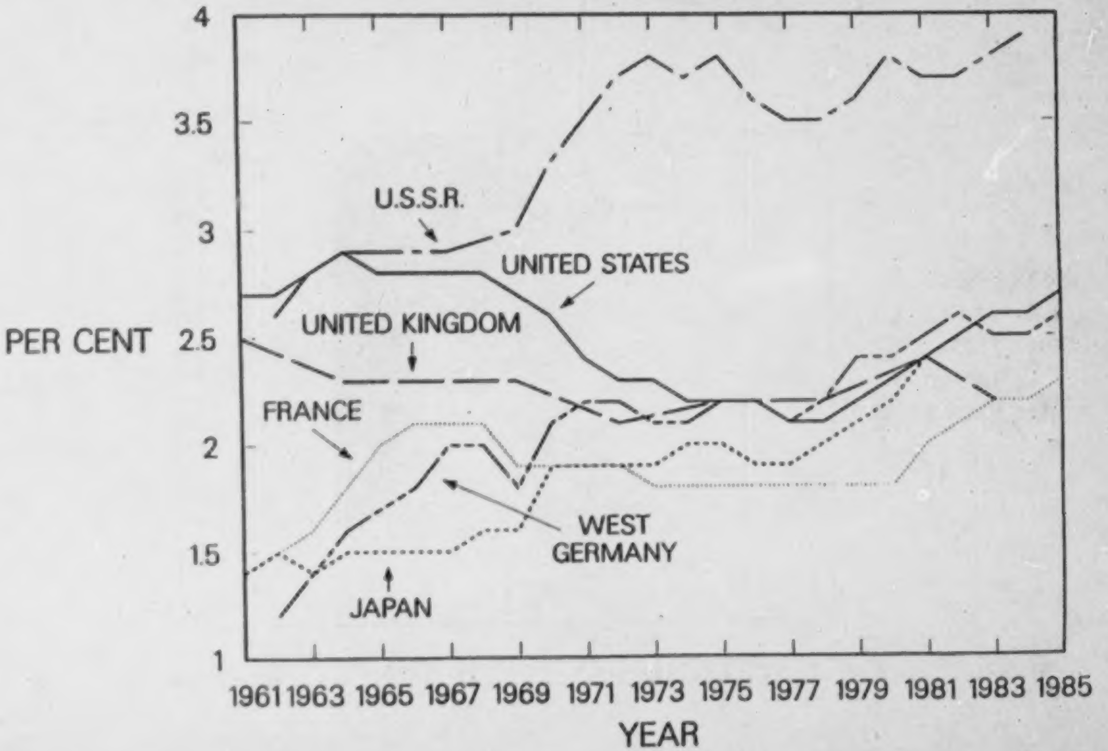

Figure 5

for Mexico, R&D spending as a percentage of GDP was 0.2% in 1973 and had doubled to 0.4% in 1978. Mexico's rate of spending is likely among the highest for the developing countries. During the 1970's, the United Nations was promulgating a target level of 1% of GDP.

Large U.S. expenditures have undoubtedly contributed to our eminence in high-technology R&D. But, as other countries step up their level of R&D and we begin to lose market share in some high-tech items to the Japanese, we need to do a better job in translating our basic science into marketable products. As will be demonstrated in the following section, countries in the European Economic Community (EEC) are forming cooperative efforts to target high-technology product development. We need to do the same in the Western Hemisphere through technology partnerships.

III. MODELS EMPLOYING R&D TO INCREASE COMPETITIVENESS

A. Introduction

All countries of the world are concerned with competitiveness—the ability to produce and sell high-quality goods at costs lower than that of other countries. In the absence of trade barriers, such an ability is necessary to capture and hold a market. Economic superiority derives from market power. Low-cost, high-quality production methods require efficient production technologies combined with competitively priced labor, energy, and raw materials. In the current climate of concern over perceived declines in U.S. competitiveness, a focus on how efficient our production processes are is appropriate. Likewise, Mexico and other countries of Latin America seek to increase exports as well. In a rapidly changing world market with fierce competition from Japanese and European producers, applied R&D and its implementation by industry is a key to maintaining our competitiveness and to allowing entry of many Latin American countries into world markets.

B. Overview of National R&D Efforts and Cooperative Efforts

1. Europe. Since the early 1980s, all developed, Western bloc countries have closely scrutinized their national competitiveness and the level of R&D in their country. The European countries fear that they are losing the technology race and have examined the U.S. and Japanese patterns of research and development for clues to how they can improve domestic industries. Many of the countries have increased government funding of R&D and/or have provided more economic incentives for the private sector to increase its R&D. National policies to improve relations and technology transfer from the universities and the national laboratories to private or government-owned industries are being adopted in Europe. Specific technologies are being targeted, including biotechnology, electronics and computers, informatics, materials, production technologies, and pollution abatement technology.

In a pattern that could be emulated by the U.S., Canada, Mexico, and the rest of Latin America, members of the European Economic Community are banding together to combat the formidable scientific resources of the North Americans and the Japanese. Examples of cooperative efforts are briefly described below.

ESPRIT (European Strategic Program in Research and Development in Information): Created to catch up with the U.S. and Japan in the manufacture of advanced microelectronics, software, advanced information processing, office automation, and computer manufacturing. Funded at a level of $612 million for first five years by the EEC with matching funds from various industrial, academic and research institutes.

BRITE (Basic Research in Industrial Technologies for Europe): Created to encourage EEC cooperation in powder metallurgy. Present activities include participation by more than 100 companies in 103 joint projects.

RACE (Research for Advanced Communication in Europe): Formed to develop a technological base for European integrated broad band networks. The consortium comprises EEC member states telecommunications laboratories and it coordinates its efforts with some of ESPRIT's work.

2. Japan. In Japan, the country perceived as our most formidable economic competitor, Western technology is imported or emulated and the Japanese concentrate on producing a high-quality good at a price lower than that of the originator of the technology. Consumer electronics, such as televisions and stereo equipment, are prime examples of technology adaptation and subsequent dominance of world markets. The relationship between government and private industry is a strong and cooperative one in Japan. Japan maintains the strongest and most successful link between

federal R&D and commercial products. The cornerstone of their efforts is the Science and Technology Agency, a secretariat for the Council of Science and Technology. The Council, which is appointed by the Prime Minister, reviews the recommendations of national laboratories and approves key technical pursuits that will benefit Japan most. The Agency administers the budget, designs policies, and conducts research of national interest. It is the responsibility of the Ministry of International Trade and Industry (MITI) to coordinate product development and commercialization.

MITI, in a joint effort with the Ministry of Posts and Telecommunications, has formed a Key Technology Center. The center is jointly funded by the government and private industry to expedite industrial development. It collects and disseminates technological information, forms joint ventures among corporate entities to develop technologies, and provides low or no interest loans to these joint ventures.

A March 20, 1987 Wall Street Journal article by Stephen Yoder exemplifies Japan's approach to commercialization. On February 15, the University of Houston announced a higher-temperature breakthrough in superconductivity. Approximately five weeks later, the Science and Technology Agency had already had the university's results duplicated and were taking aggressive steps to attempt to commercialize the technology.

Japan aggressively pursues an export-led development policy and also maintains strong ties with developing countries, which are primary sources of raw materials imports. Through established trade ties for raw materials and supported by favorable financing through Japanese banks, the Japanese are establishing a toe-hold in many of the newly emerging markets in the developing or newly-industrializing countries. Japan also plans to greatly expand its foreign aid, which will further strengthen presence in developing country markets.

3. United States. Commercialization of new technologies in the U.S. has been left in the hands of the private sector. As evidenced by our lead role in the export of high technology items, the private sector has been very successful in its endeavors. However, the recent decline in our trade balance and concern over the competitiveness of our nation's industries has led to a search for government policies that will translate our country's eminence in basic research into sustained dominance of world markets.

The current administration has recently announced an initiative to maintain our nation's competitiveness. It synthesizes many approaches, including improvement in science education, better protection of intellectual property, enactment of legal and regulatory reform, promoting the development of science and technology, and reducing the deficit. Of particular interest to New Mexico, since two national laboratories are located here, is an Executive Order entitled "Facilitating Access to Science and Technology," which assigns a key role to the national laboratories. The Order establishes priorities for translating laboratory R&D into marketable products through a variety of mechanisms: more cooperative efforts with universities and the private sector; designation of one or more federal laboratories to participate in a technology share program (with strong mandates to identify key technologies, perform research in these technologies, and to form a consortium with industries and universities to develop the technology); establishing entrepreneurial conduits from the labs to private industries; etc. The national laboratories have maintained technology transfer efforts aimed at improving industrial relations and will expand these efforts, which should benefit New Mexico industries.

4. The Developing Countries. These countries recognize that technology is an important ingredient to economic development. For example, the technological change embodied in the Green Revolution has had a profound impact on their economies. However, many countries are rightly wary of wholesale adoption of imported technology. Since most countries are characterized by surplus labor, they can benefit by taking advantage of less capital intensive production technologies that utilize cheap labor and increase employment.

a. The Newly Industrializing Countries (NICs). The NICs, which include Mexico, have a more advanced scientific infrastructure, characterized by a higher per capita number of scientists and engineers, greater national spending on R&D, and more skilled labor than the less developed countries (LDCs). Mexico was a Latin American pioneer in the implementation of a national R&D policy when it established the National Council for Science and Technology in 1970 (CONACYT). CONACYT formulated national R&D plans for the country. However, the NICs generally cannot yet afford the investment in basic science to become major innovators of new technologies and must depend on adaptation of imported technology. Owing to less expensive labor costs and, often, rich natural resources, the NICs can excel in mature technology industries.

b. The Less Developed Countries. The LDCs cannot afford much expenditure on scientific research and must rely on imports of technology and exports of commodities. Both the NICs and the LDCs can benefit from improved access to scientific resources and technical know-how. Mutual benefits can occur when appropriate-technology-led economic growth and resulting increases in the standard of living stimulates exports to and imports from the developed countries. The negative side of this coin—decreased trade owing to an economic recession and heavy debt burden—is currently being experienced in Latin America.

c. Cooperative Efforts in the Developing World. Doubtless, many cooperative research agreements exist among the developing countries. Close to home, several exist in the Caribbean but many suffer from lack of stable funding from their sponsoring organizations, which are often the Caribbean Community, the United Nations Educational, Scientific, and Cultural Organization, and the Economic Commission of Latin America and the Caribbean. For example, a Caribbean Council of Science and Technology was established in 1981 but its support has been uneven. On the other side of the globe, the Association of South-East Asian Nations (ASEAN) carry out joint R&D programs to solve regional problems and to increase international competitiveness.

In 1982, the French government established an organization in Paris, funded at a level of $20 million to apply information technology to education and training in the LDCs and elsewhere. A Science report ascribed motivation to France's desire for more cooperation with LDC's but also to "provide a boost for the French in high technology competition with Japan and the U.S."

The United States is viewed as an important source of education and technology by the developing world. However, Latin America is under-represented as a percentage of foreign students and we would do well to encourage more students from Latin America to attend universities in the U.S. Much of our technology is sold to and adapted by developing countries. We also have strong t[illegible] ties with the developing world, especially our close neighbor, Mexico. Cooperative agreements to benefit the scientific infrastructure of Mexico could facilitate product development and intraregional trade, resulting in mutual benefits to both countries. A joint commission on scientific and technical cooperation has existed between the two countries in recent years, and it has been judged as one of the more successful areas of cooperation. It has operated between the National Council for Science and Technology, CONACYT, and the U.S. National Science Foundation.

A close-to-home example of U.S. cooperation with the developing world is provided by Los Alamos' work with Central America and Mexico. The Los Alamos National Laboratory, with funding from the U.S. Agency for International Development (AID), is currently engaged in a major joint effort with the Central American countries to identify their energy and mineral resources and evaluate the potential for their development. The goal is to promote economic development through increased utilization of natural resources and decreased expenditures on imported oil. Although we are training Central Americans to be more self-sufficient in resource exploration and evaluation, the countries will require imported capital and some imported engineering to develop their resources efficiently. Thus there is a role for the U.S. private sector to complement our efforts in the region. Also, as the Central American economies grow, a goal of U.S. development assistance, they will open new markets for U.S. products. In addition, the Laboratory has cooperative ties with the Mexican Nuclear Institute and the Mexican Petroleum Institute.

Steps taken to establish regional efforts to improve the science and technology base of Latin America and the Caribbean could be mutually beneficial to the countries of the region as well as to the U.S.

IV. SCIENCE AND TECHNOLOGY PARTNERSHIP IN THE AMERICAS

A. Introduction

Science and technology development has been an integral factor in the economic progress of the industrialized and newly-industrializing countries of Southeast Asia. In Latin America, however, technological change has not contributed significantly to economic growth, according to Miguel Urrutia, an executive at the Inter-American Development Bank. In the September, 1986 issue of the Council of the Americas' Washington Report, he states that

> " A long-term growth strategy for Latin America must, therefore, be based around the attempt to increase total factor productivity....
>
> ...it is clear that a greater investment in research and development must take place, and incentives be developed for technological innovation and adaptation."

Latin America is a region burdened with a huge foreign debt payments that limit growth and necessary investments. Science and technology development could provide the impetus needed for long-term growth.

During the 1960s and 1970s, the U.S. made large investments in helping to create a scientific infrastructure in the developing countries. In the 1980s, support for these activities diminished and much of the progress of earlier efforts was undone. Scientists in developing countries need open lines of communication with those in the developed world and joint research efforts to successfully harness technology for their development needs. A sustained, coordinated transfer of technical know-how from the U.S. is needed in the form of a technology partnership among the nations of the Americas. In terms of the total foreign aid budget, a relatively small investment in science and technology in the developing world today could have enormous multiplier effects in future development.

A technology partnership among the nations of the Western Hemishpere would serve two functions. First, the competitiveness of the hemisphere as a whole could be improved by collaborative research efforts that take advantage of the human, scientific, and raw material resources of both continents. Second, trade ties could also be enhanced through this new cooperation. As discussed elsewhere in this paper, the economies of the U.S. and Latin America are intimately intertwined. In fact, some analysts have ascribed the worsening of the U.S. trade balance to the economic recession in Latin America and reduced trade flows to the region. Healthy Latin economies require more U.S. imports to build infrastructure and satisfy demand for manufactured goods that are not produced in the region. Section II highlighted the importance of R&D to competitiveness (and, hence, economic growth) and the attention that it is receiving from the developed countries of the world. A technology partnership will seek to provide a better climate for product development in Latin America, product development in which U.S. partners can share. Any measures taken to improve the Latin economies, including assisting with their R&D efforts, is in the mutual interest of the U.S. and Latin America.

B. Purpose

A foreign policy initiative is required to promote a technology partnership among the nations of the hemisphere through technical assistance and cooperation that will accomplish the following:

1. Fortify the technical base of the Latin American nations so as to promote economic development and political stability.
2. Contribute to the economic vitality of the Americas in order to expand market sizes and keep the countries of the hemisphere competitive in international markets.

Fortification of the technical base of the region as a whole can only be accomplished through a sharing of technical knowledge among the nations, including training, education, and joint research and development efforts. Technological improvements increase productivity, which, in turn, leads to higher growth levels. By making relevant scientific and technical information more readily available throughout the region, the technical innovation and adaptation processes will be more efficient and productive. At present, many leading research institutes lack complete libraries or access to recent publications. A focus for technical assistance is needed to assist local scientists in making technology choices. A single organization in the U.S. will serve as this focus and perform the administrative functions of the partnership.

Expanding market sizes and maintaining competitiveness are both functions of the economic growth that will be stimulated by technological innovation. Increased cooperation will contribute to the economic vitality of the region. The economies of the Americas are already largely interdependent. The U.S. is the region's largest trading partner. Mexico's trade with the U.S. is roughly half of their total trade. This historical relationship should be capitalized upon to create a new centroid of economic activity in the Americas. Increasing the economic, scientific, and institutional interdependency of the countries of the region is not the only answer to the competitiveness issue. However, in the long term, the growth of the technological infrastructure of the region as a whole will contribute to increased market size, prosperity, and economic security for all countries involved.

C. Scope

1. Countries. Most of the governments of the Western Hemisphere will be invited to participate in the partnership. This includes Canada and the Caribbean nations as well as the U.S. and Latin America. The U.S. and Mexico could initiate the partnership due to the unique historical relationship between these countries

Since the establishment of strong ties between the governments of the developing countries is a main objective of the technology partnership, all activities would be coordinated through the governments of the respective countries. However, it is also important to establish strong ties with the universities and private sectors in the region as well because these organizations directly constitute the technological infrastructure that we are trying to strengthen. Regional centers of technical excellence are expected to play a key role as partners in our activities.

2. U.S. Participants. U.S. participants would be selected to form a cohesive group with good communications and scientific and technical skills that are complementary. In order to fulfill these criteria, it is suggested that initial U.S. participation focus on New Mexico because of the large number of Spanish-speaking citizens and its strong scientific leadership capability in its national laboratories and universities. It may also be beneficial to include Florida and other border states. Some New Mexico organizations already have experience with assisting Latin America, as evidenced by Los Alamos' Central America project.

3. Technologies. The priorities of technical cooperation must be established jointly by the countries of the partnership. A few areas of cooperation are introduced below, but it is premature to decide on areas of concentration before obtaining the concensus of our developing neighbors.

As noted in DOE's recent "Energy Security" report, energy is an important topic because the developing world is expected to significantly increase its share of the world's oil consumption, leading to a relatively larger oil import bill, more competition on the world market for available oil, and greater susceptibility to the vicissitudes of world oil prices. Possible topics for technical cooperation in energy include enhanced oil recovery in the oil-exporting nations, renewable energy technologies, technologies or processes that increase energy productivity, methanol production, etc.

The transfer and adaptation of U.S. technologies that may be suited to developing country co-production for local markets is another important area of focus. The U.S. private sector could play a larger role in joint ventures in this area.

Other high-priority areas are expected to be medical and agricultural research that address specific developing country health and agricultural problems.

Computer science is another critical area that countries must master to increase their productivity and exist in the modern world. Biotechnology can also be expected to play a significant role in improvement of farm yields and health in the developing world.

D. Implementation

The goal of the program is to increase the technological infrastructure of the Americas to a point where it is self-sustaining. To complement AID programs, the focus will be on science and technology not adequately covered in the traditional areas of AID assistance—appropriate medium- to high-level technology. All activities will be closely coordinated with the Department of State and AID. The program will enhance developing country applied research through establishment of centers of excellence for specific technologies. Training, cooperative research, and cooperative product adaptation/development will be the main activities of the technology partnership. These activities address the needs of the countries of the partnership by making available information on alternative technologies and training individuals in how to select and adapt these technologies to their home country needs.

A steering committee of leading scientists and engineers from throughout the region would be selected from among the participating organizations and countries. The charter of the steering committee would be to establish the priority of areas of cooperation. In the first few years of existence, it would be efficient to focus on three or four high-priority areas, perhaps energy technologies, information science, and biotechnology. Experts would educate participants about the important aspects of the field of expertise through the following mechanisms: sending scientists to developing countries to teach seminars, train developing country members, and participate in joint studies; receiving scientists from developing countries for training and participation in research projects in the U.S.; making available information on specific technologies in a format that allows the comparison of alternatives; and assisting with the identification and adaptation of appropriate methodologies to conduct a certain process in a developing country.

V. CONCLUSIONS

- The U.S. faces a decline in competitiveness that is injurious to long term economic well being. Latin American countries face many severe economic problems and need to boost their exports. Economic interdependencies call for a coordinated effort to meet the challenges to Western Hemisphere competitiveness in the long term.

- Many countries of the world are focusing on applied research and product development as an important means to achieve or maintain competitiveness. Access to technological advances is a key ingredient. EEC countries are pooling their resources to address today's problems. We must do the same with countries of the Western Hemisphere to lay the foundation for a coordinated approach in the future.

- A technologic partnership is required that will enhance the scientific infrastructure of Latin America, contribute to economic growth, and open new markets. Economic health and development is mutually beneficial to the U.S. and Latin America.

- The national labs, universities, and private sector of New Mexico and perhaps other border states should be the main U.S. participants because of our strong scientific resources, our proximity to Latin America, and our Spanish language capabilities. Mexico also has scientific capabilities that will make them an important partner in exchanges with other countries in Latin America, while they benefit from exchanges with the U.S.

- Technological requirements of development in Latin America deserve a high priority today, because they can lead to self-sustained economic growth and mutually beneficial trade flows within the region in the long term. New Mexico can contribute and benefit by establishing strong supply links for technical know-how, leading to strong, two-way trade ties in the future.

- In terms of our total foreign aid budget, the relatively modest investment required for a technology partnership could have substantial long-term payoffs to economic vitality of the hemisphere.

Senator BINGAMAN. Thank you very much. Let me just ask you a couple of questions and then we'll let you out of here.

I think your idea of a technological partnership is certainly commendable, but I guess what occurs to me is that it's somewhat visionary, as compared to the reality of the relations with Mexico today. If the testimony I heard yesterday at New Mexico State is accurate, that the number of students coming from Mexico has dropped significantly because of the change in the value of the peso. We have taken no action to deal with that. And many of those were students who were coming up to New Mexico State to study engineering or agriculture or some type of very practical, usable technology application. If that cannot be addressed, then really it's difficult for me to perceive us being able to pursue a long-term consistent policy of interaction with Mexico on a higher level of technology transfer, which I take it you're proposing. Is that a fair comment?

Mr. LOHRDING. I think it's a very fair comment. I think the fact that in our universities very few of our foreign students in our universities are from Latin America, or particularly from Mexico. It is very unfortunate and there needs to be an aggressive program of trying to encourage participation in our schools and universities from students within this hemisphere, and I would see that as a part of what I'm taking about, that we need to have those students trained in engineering that can provide the scientific and technical infrastructure within those countries and that this would be a complement to that. And I do understand the difficulty in going forward with something like this when we haven't solved that problem, but I think they both need to be solved.

Senator BINGAMAN. Another sort of threshold problem which I guess occurs to me is that there's been a significant decrease in the number of U.S. students going into the sciences or at least achieving a Ph.D. degree in the sciences and advanced technology subjects in recent years. It's somewhat ambitious for us to concern ourselves with how we're going to encourage others from foreign countries to pursue the study of some of these subjects if we can't, in fact, encourage our own students.

Mr. LOHRDING. I agree.

Senator BINGAMAN. OK, on a different subject. In your prepared statement you have charts of our trade deficit. I have seen those charts or similar charts for sometime now. Have you done any estimates or calculations or do you have a capability to look down the road and anticipate the extent of the trade deficit we might have in 1990 and 1995, given present trends in different industry sectors? This is a question I've asked of many witnesses in Washington, and everybody seems to have a different idea as to whether this trade deficit of something in excess of $100 billion is going to continue with us for an indefinite period or is a very short-term phenomenon. I'll tell you my concern, very briefly. I see us having lost most of our foreign markets for agricultural products because we've exported the green revolution, and other countries have learned to grow their own food. In fact, we have a great deal of competition in the world marketplace today by many of these countries that now can grow food very well. Russia's the one primary exception to that. Russia hasn't figured out how to grow the grain that they need and we still sell a lot of wheat to them. But in agriculture, we're not going to develop a significant surplus in the next decade like we saw a decade or two ago.

In petroleum products, we are seeing a growing dependence on foreign petroleum products and, accordingly, we're not running a surplus. We cannot anticipate a surplus, but a larger and larger deficit in that part of our trade relations.

In manufacturing high technology, as you put it on your chart, we are going to have our hands full retaining our share of the world market and, perhaps, regaining some of that that we've lost in the last 5 years. And so I don't see us developing any significant surplus in that area. I have difficulty seeing how we're going to get our trade deficit below about a hundred billion in the next 5 or 10 years. Have you done projections along those lines or do you have opinions as to where that is going?

Mr. LOHRDING. No, we have not been able to and we don't really have access to that kind of detailed data. I think the Commerce Department or someone like that might be better able to do that kind of forecasting.

Senator BINGAMAN. Melissa, you're the Commerce Department, do you folks have a projection as to where you think the trade deficit will be 5 years from now, 10 years from now?

Ms. COYLE. We may, sir, I'll have to check and see.

Senator BINGAMAN. OK. If it's not classified, I would like to see it.

Ms. COYLE. All right.

Senator BINGAMAN. Ron, thank you very much. I appreciate your testimony.

I understand that Joe also has an early commitment and would like to go next. Without any objection from anybody, Joe, why don't you go ahead with your statement. Thank you for being here. Let me just interrupt another second here. I am somewhat remiss in not introducing folks again for the audience's sake and Joe is representing the New Mexico International Trade and Investment Council, and the Greater Albuquerque Chamber of Commerce. We appreciate your being here.

STATEMENT OF JOSEPH M. ZANETTI, JR., ON BEHALF OF THE NEW MEXICO INTERNATIONAL TRADE AND INVESTMENT COUNCIL AND THE GREATER ALBUQUERQUE CHAMBER OF COMMERCE

Mr. ZANETTI. Senator, thank you. My reason for wanting to be next is not nearly as compelling as Ron Lohrding's is, I'm not catching an airplane to Europe, but I do have a son and a granddaughter who share a birthday today.

Senator BINGAMAN. That's a compelling reason.

Mr. ZANETTI. I'd be in real trouble if I miss this party. Thank you for your introduction, Senator. The topic that I've been asked to address today is that of the trade and investment opportunities represented by the State of New Mexico. Or to rephrase that to a question, How prepared is New Mexico to play in the international marketplace, including that represented by Mexico but not necessarily limited to that marketplace? I think that I'd like to frame my answer in two parts. The first has to do with the infrastructure that's developing within the State of New Mexico to permit the State to be a more active and able participant in that endeavor.

There is a growing public-private partnership in the State of New Mexico that is recent in its origins, but I think important in its potential for the State that's deserving of some comment. At the luncheon today, for example, recognition was made of the fact that the Albuquerque Hispano Chamber of Commerce has been responsible for coordinating this program today. The Hispano Chamber has an International Trade Committee that is being represented here today, I understand, by Mr. Roberto Castillo. The Greater Albuquerque Chamber of Commerce has an International Trade Committee. Also today introduced at the luncheon were members of the new Chinese Chamber. Mr. Min Lee who's president of the chamber also serves as a member of, by appointment of the Governor, the New Mexico International Trade and Investment Council. Mr. David Shi who's a member of that committee, and also chairs the sister cities organization here, which has an Economic Development Committee.

So what we see happening in the State of New Mexico is a very important and growing awareness of the fact that the United States and New Mexico, as a sometimes recognized part of the United States, plays a role in what is rapidly becoming a global economy, and that to play in any other arena is to be unrealistic.

The International Trade Council, which I'm pleased to be able to represent here today, was formed as a kind of focus for that public-private partnership. I'd like to quote from the State Department of Economic Development and Tourism's report to the Governor in 1986.

Senator BINGAMAN. When was that trade council estabished?

Mr. ZANETTI. It was established in 1984, originally, and then in 1985. This quote addresses that subject:

> To enhance the State's effort, Governor Anaya and the Secretary of Economic Development and Tourism announced the formation of a Foreign Trade and Investment Council in September 1984. It was incorporated in March 1985, as the New Mexico International Trade and Investment Council, and is composed of private business leaders from the State's agriculture, mining, energy, tourism, real estate, finance, and technology research sectors. Creation of the council is a "first" for New Mexico. It establishes a formal tie between the private sector and State government to attract foreign investment and increase exports. Members work with the international development program to assist the state's business community.

Members of that council are appointed by the Governor. The purpose of the council is specifically to promote the export of New Mexico products and to attract reverse foreign investment into the State, particularly in job-creating situations. It works very, very closely with the State Department of Economic Development and Tourism, and particularly with the international division of that department. So it is, as I say, the focus of a public-private partnership that it is part of, but is not the only representative of, as indicated by these other activities that are taking place.

During the brief period of time since the inception of this partnership, this broader partnership, a number of things have happened. I think that, for one thing, it's been made manifest that New Mexico is started in that outward-looking process that Mr. Herzstein says is so important and he says has been part of the problem with respect to Mexico. It certainly has been part of the problem with respect to New Mexico in terms of its ability to develop its trade and investment opportunities.

During that 2-year period between 1984 and 1986, a number of positive things have happened, for which I think the public-private partnership can claim at least some partial credit. First of all, the number of foreign firms that have visited New Mexico has increased fifteenfold during that time. Memoranda of understanding for mutual assistance have been signed with five foreign entities, four of them Japanese: the Mitsui & Co., trading company; C. Itoh & Co.; Long Term Credit Bank of Japan; the Mitsubishi Bank; and with the China External Trade Development Council in Taiwan. With the opportunity that may present itself with the new framework agreement that's being negotiated with Mexico, it may be possible for New Mexico to enter into some kinds of subordinated arrangements or agreements with the Republic of Mexico.

New Mexico has now become a regular stop on the Taiwan trading missions and we hope will soon become a regular stop on the Taiwan investment missions which are just now being organized. A foreign trade zone has now been established within the State. Regular trade missions have now been initiated to our target markets, and those are Mexico, Japan, Taiwan, and the United Kingdom. And the first cooperative advertising agreement has been reached between New Mexico and the State of Chihuahua to promote inbond assembly and maquiladora programs. Now, admittedly, this is a modest program achievement, but it is a program that is unprecedented in our relationship for many years between New Mexico and Mexico and now with our other targets for international trade and development.

Well, this is infrastructure, and this is the first part of the framework that I wanted to address, but infrastructure is only that. It obviously is not the substance of an international trade and investment program, but the changing fact of the New Mexico economy, I think, represents more clearly that substance that needs to be addressed. It's that changing face of the economy that presents this whole new range of opportunities and potential.

The economy of New Mexico has been shifted very rapidly from a near total dependence on agriculture and the extractive industries to other economic bases. Tourism is one of them, and the other is the one that Ron Lohrding addressed and that I'd like to talk about in just slightly different terms, and that is the research and development and the spinoffs from that R&D that are taking place within the State.

For instance, the number of nonagricultural New Mexico firms doing international business today has grown from 65 in 1980 to some 186 in 1986. That says that the economy is changing and that it's changing in a way that addresses recognition of the global economy, which is not to say that we are not going to continue to be dependent on our agricultural programs in the State and to our extractive industries, but those are also changing. For instance, in agriculture, there is a great deal of emphasis now being placed on value-added products. One of our major export products in the State is pecans, but not raw pecans, or unshelled pecans. We're also talking about pecans in many forms which appeal to pallets and to markets all over the world, and New Mexico is rapidly becoming the pecan exporting capital of the United States.

The same thing is happening with regard to an industry that needs a great deal of assistance, and that's the beef industry in New Mexico. Value-added products are starting to be prepared in the State and they present themselves to export much more readily than does beef on the hoof or processed beef. For instance, smoked beef, beef jerky, even meatballs, for example, are starting to find international markets and New Mexico is developing industries who are starting to play a major role in that kind of prepared foods. It's very important in a market like Japan, for example, where there are strict beef quotas, but there are no beef quotas for prepared beef products, such as these, so that the opportunity for New Mexico is in value adding to its basic agricultural products.

Senator BINGAMAN. In the case of beef, to what extent do we go the next step and prepare the beef products? I didn't know that that was an extensive activity.

Mr. ZANETTI. It is not, Senator, it's an activity that is just getting underway, but it's getting underway with such gusto and such fervor, that I think it's going to give us an opportunity to play a fairly major role. It certainly is giving us a leg up on some of our competitors such as Iowa and Colorado where this kind of activity is not yet taking place.

Senator BINGAMAN. We'll expunge this part of the record so that they don't find out.

Mr. ZANETTI. And I do want to reiterate that I'm speaking for opportunities and potential for the State of New Mexico.

The other area that I think is extremely important is the one that Ron Lohrding alluded to and he addressed the national laboratories; namely, Los Alamos and Sandia, but there are some other things that are taking place with regard to technology development and the opportunity for bringing those technological programs to commercial application that are extremely important. The State has formed within the past few years, in fact, these centers are now in their fourth year of operation, five centers of technical excellence, the importance of which I think is hard to overemphasize. Two of them are located on the campus of the University of New Mexico, one deals in new materials development, specifically with respect to computer and data processing applications and concentrate in areas of lasers and electro-optics. And the other center on the university campus has to do with noninvasive medical diagnostics or nuclear magnetic residence programs. And at New Mexico Tech in Socorro we have a center for peaceful uses of explosive technology, particularly, in manufacture and processes.

On the campus of New Mexico State we have two very important centers, one having to do with robotics and artificial intelligence and one which I think has particular value with regard to Mexico, and that's the plant genetics engineering laboratory, which is working in new strains of agricultural products particularly adaptable to high-alkaline and low-humidity conditions. It's one of those areas where a cooperative program might be of great benefit to both parties.

These centers of technical excellence do not sell their technology. Basically, they welcome investments on the part of domestic and international entities, both governmental and private sectors, in joint research programs and joint cooperative ventures, the results of which will result in commercial applications, the fruits of which can be enjoyed by all of those who were participants in the ventures. These centers are enhanced and I think their efforts are amplified by two technology innovation program centers, one located at New Mexico State and one on the University of New Mexico campus, which take the work of private entrepreneurs, individuals who have new technologies but who want to find their way into the business world and to commercial application. They provide the necessary support to those individuals and to their businesses to incubate them so as to bring them to commercial application and keep those technologies in New Mexico where the benefits of commercial application can then be appreciated.

To take what Ron Lohrding was alluding to the work being done by the labs and the work being done by the centers of technical excellence and the technology innovation programs, and to add to those what Mr. Herzstein alluded to, the very large pro rata investment on the part of the universities in R&D programs. So that with all of these pieces being pulled together, New Mexico's potential for taking its enormous R&D programs and realizing the benefits from the commercial applications thereof, is growing with every day. It's too early, I think, to be able to quantify what's going to come out of that technology development program and what's going to come from the value-added agricultural programs, but we can look at the export trade volume and what's been happening over the past 2 years to get some idea of whether the basic program is starting to work in New Mexico.

If one looks at the volume of nonagriculture international business done by the State of New Mexico, in 1984 the gross volume in millions of dollars was $107.4 million. In 1986 that had grown to $118.2 million. The percentage volume change over that time went from 61.3 percent to 86.3 percent. The number of New Mexico firms represented abroad or out of State grew from 10 in 1984 to some 60 in 1986. Now, again, these are modest gains, but they do represent beginnings.

The State has published just very recently the New Mexico International Trade Directory. By any measure, for a State the size of New Mexico and the population the size of New Mexico, this is an impressive document. Much more could be done, because New Mexico represents considerably more potential than is manifest in this document. And what needs to happen there, I think, Senator, is that we need to continue this program of educating ourselves and educating our citizens to the fact that New Mexico must play in the global economy. We have a series of trading partners who can do much to realize that potential, that Mexico represents the No. 1 partner for us because of its proximity and the potential that has been described here today by these and other programs including the maquiladora program, and that with this kind of continuing emphasis the potential that's been described here, and it will continue to be described I think we can begin to realize much more rapidly.

[The prepared statement of Mr. Zanetti follows:]

PREPARED STATEMENT OF JOSEPH M. ZANETTI, JR.

How prepared is New Mexico to play in the International Market place? Including that segment of the international arena represented by Mexico, but not necessary limited to it, I would like to frame my answer in two parts. The first has to do with the infrastructure that is developing within the state of New Mexico to permit the state to be a more active and able to participate in international trade and investment endeavors, there is a growing private/public partnership in the state of New Mexico that is a recent in its origin but, I think, important in its potential. At the luncheon today, for example, recognition was made of the fact that the Albuquerque Hispano Chamber of Commerce has been responsible for coordinating this program today. The Hispano chamber has an International Trade Committee that is being represented on this panel by Mr. Roberto Castillo. Also, introduced at the luncheon today were members of the new Chinese Chamber. Mr. Min Lee, who is President of that Chamber, also serves as a member, by appointment of the Governor, of the New Mexico International Trade and

Investment Council. Dr. David Shi chairs the Sister City's organization here which has an economic development committee.

What we see happening in the state of New Mexico is a very important, and growing awareness of the fact that New Mexico plays a role in what is rapidly becoming a global economy, and that to play in any more limited arena is to be unrealistic.

The International Trade and Investment Council, which I am honored to be able to represent here today, along with the Greater Albuquerque Chamber of Commerce, was formed as a kind of focus for a public/private partnership. I would like to quote from a state department of Economic Development and Tourism report to the Governor for 1986.

"To enhance the state's effort, Governor Anaya and the Secretary of Economic Development and Tourism announced the formation of a Foreign Trade and Investment Council in September, 1984. It was incorporated in March, 1985 as the New Mexico International Trade and Investment Council and is composed of private business leaders from the state's agriculture, mining, energy, tourism, real estate, finance and technology research sectors. Creation of the council is a "first" for New Mexico. It establishes a formal tie between the private sector and the state government. To attract foreign investment and increase exports, members work with the International Development program to assist the state's business community."

Members of the International Trade and Investment Council are appointed by the Governor. The purpose of the Council is specifically to promote the export of New Mexico products and to attract foreign investment into the state, particularly in job creating situations. The Council works very closely with the State Department of Economic Development and Tourism and particularly with the International Division of that department.

During the brief period of time since the inception of this partnership, a number of significant events have transpired. for one, New Mexico has launched that outward-looking process that we have been told earlier today is so important what has been part of the problem with respect to Mexico certainly has been the problem with respect to New Mexico, specifically in terms of our ability to develop our trade and investment opportunities.

During that two year period between 1984 and 1986 a number of positive things have happened, for which I believe the public/private partnership can claim at least some partial credit. First of all, the number of foreign firms visiting New Mexico has increased markedly. Memoranda of Understanding for Mutual Assistance have been signed with five foreign entities: in Japan with Mitsui and Co., C. Itoh and Co., The Long Term Credit Bank of Japan, and Mitsubishi Bank; and also with the China External Trade Development Council in Taiwan.

New Mexico has now become a regular stop for purchasing missions from Taiwan, and we hope soon to become a regular stop on the Taiwan investment missions which are just now being initiated. A Foreign Trade Zone has been established within the state. Regular trade missions have now been initiated to our target markets: Mexico, Japan, Taiwan and the United Kingdom. The first cooperative advertising agreement has been reached between New Mexico and the state of Chihuahua to promote in-bond assembly programs.

Now, admittedly, this is a modest program of achievement, but it is a program that is unprecedented in New Mexico's long relationship with Mexico, as well as with, Japan, Taiwan, and the U.K.

This developing infrastructure is important, essential in fact; but it is not the substance of New Mexico international trade and investment program. That substance is reflected in the changing face of the state's economy. We are witnessing the emergence of a range of new opportunities. The economy of New Mexico has been shifting very rapidly from dependence on agriculture and the extractive industries to other economic bases. Tourism is one of these; another is the one that another member of this panel addressed just a moment ago. It is one that I would also like to address, though in slightly different terms. I speak here of research and development and of the spinoffs from it that are taking place within the state.

For instance, the number of non-agriculture New Mexico firms doing international business has grown from 65 in 1980 to 186 in 1986. That says the economy is changing and that it is changing in a way that address recognition of the global economy.

This is not to say we are not going to continue to be somewhat dependent on our agriculture programs in the state and on our extractive industries. We will; but both of these are also changing. For instance, in agriculture there is a great deal of emphasis now being placed on value-added products. One of our major export products of the state is pecans, but not only raw pecans or unshelled pecans.

Now we are exporting processed and prepared pecans in many value-added forms to appeal to pallets and to markets all over the world. New Mexico is becoming the pecan exporting capital of the United States.

The same thing is happening with regard to an industry that needs a great deal of assistance, the beef industry of New Mexico. Valued-added products are starting to be produced in the state, and they present themselves to export much more readily than does beef on the hoof or carcass beef. For instance, smoked beef, beef jerky, special cuts, sausage, meatballs, and other specialty foods prepared from beef are starting to find international markets. New Mexico is seeking to be a player in those market places. Specialty beef products are very important in a market like Japan, for example, where there are strict beef quotas. There are no quota restrictions on some prepared beef products. One opportunity for New Mexico, clearly lies in adding value to its basic agriculture products. The other area I think that is extremely important is the one alluded to earlier: research and development and the resulting scientific and technical spinoffs. Labortories, namely Los Alamos and Sandia; we have heard about the technology transfer programs of the national laboratories, and they are indeed commendable. There are however, other things taking place with that furnish opportunity for bringing those technological programs to important commercial application. The state has formed within the past few years, (in fact these centers are now in their fourth year of operation), five centers of technical excellence, the importance of which I think is difficult to over estimate.

Two of these centers are located on the campus of the University of New Mexico. One deals in high technology materials development. Specifically it performs research in laser, modern optics, and microelectronics and development in commercial applications thereof. The other center located on the University of New Mexico campus deals with non-invasive medical diagnostic, including nuclear magnetic residence programs. At New Mexico Tech in Soccorro, the state has a center for the peaceful uses of explosive technology particularly in high technology manufacturing processes. On the campus of New Mexico State, the state has two very important centers, one having to do with computer research applications and one, which I think has particular value with regard to the Republic of Mexico, dealing with plant genetic engineering. The latter is rapidly emerging as a world leader in the application of plant biotechnology for agricultural production in arid and semi-arid regions.

Investments by domestic and international entities from both the governmental and private sectors are invited by the centers for joint research programs and joint cooperative ventures, the results of which can result in commercial applications the benefits of which of which can be enjoyed by all of those who have participated in the ventures.

These centers are enhanced and I think their efforts amplified by two technology innovation program centers, one located at New Mexico State University and the other on the University of New Mexico campus. They support the efforts of individuals who have new technologies, but who not yet brought those technologies to commercial application. The centers assist inventors and entrepreneurs in developing and marketing their high-technology ideas. In so doing, the help to keep those technologies and the business benefits thereof in New Mexico.

The combination of a developing infrastructure addressing international trade and investment through a public/private partnership and the diversification of the state's economy based on the technologies emerging from the state's manifold research and development programs is a combination that is beginning to prove its worth. We need only look at the volume of non-agricultural international business done by the State of New Mexico during the past two years for some convincing evidence.

In 1984, the gross volume of such business was $107.4 million; in 1986, that volume had grown to $118.2 million. The percentage volume change (non-agricultural vs. agricultural) during that two-year period rose from 61.3 percent to 86.3 percent. The number of New Mexico firms doing non-agricultural business abroad or out-of-state rose from 10 in 1984 to 60 in 1986.

These are modest gains, but they represent the beginnings of an effort of considerably potential and continuously improving chance for success. The New Mexico Department of Economic Development and Tourism has recently published an international trade directory, listing and describing those firms in New Mexico doing export business and those seriously interested in and having the capability for doing such business. It is an impressive document, particularly for a state having such a small population. Still, it does not represent the true potential of New Mexico as a player in the global economy.

The Republic of Mexico has long been New Mexico's major trading partner. By virtue of its developing infrastructure and of the diversification of its economy, New Mexico is improving its ability to make increasingly important contributions to that partnership.

Senator **Bingaman**. Let me ask you just a couple of questions before we let you go to these birthday parties. One of the things that came out yesterday at the discussion in Las Cruces was that the economic activity that is represented by the maquila plants is a total change in the economics of the United States-Mexico border regions.

We have nearly a thousand U.S. plants now in northern Mexico employing nearly 300,000 people.

The fact that that activity is taking place on the Mexican side creates some real incentives for U.S. firms who are suppliers to that economic activity to move to the border region or move some of their activities to the border region. El Paso's done a reasonably good job of attracting that. We, as yet, have not, and I don't think we've been very successful in capitalizing on the opportunities that exist there. Some of that's because we haven't had a border crossing that was proximate to the plants themselves, a third of which happen to be in Juarez.

It strikes me that there ought to be a way for us to essentially recruit the suppliers of these maquila operations very precisely and point out the benefits to them of being here near the manufacturing activities that they are involved in. I would be interested in knowing the extent to which that's been done in your knowledge, or the extent to which you think it should be done?

Mr. **Zanetti**. I think that probably addresses both domestic firms and international firms who are showing an increasing interest, is that what you want me to do, Senator?

Senator **Bingaman**. Well, I'm talking about, for example, General Electric which has seven plants in Juarez. They are assembling all kinds of components, much of which they buy from others around the country. As far as I know, they're buying very little, if anything, from plants or suppliers in New Mexico. If we did a good recruiting job with the people they are buying from, we might get some of those folks to move to New Mexico.

Mr. **Zanetti**. I think that's right, and I think that that's a program that has really only started up in, with any kind of emphasis in New Mexico, within the past year. The opportunity, of course, in the Santa Teresa Industrial Park and the industrial park at Columbus, has given the State of New Mexico two opportunities to begin to play in that game. But it is one that represents enormous opportunity and it does provide that very special kind of incentive which you've just described to bring plant sites here, when those suppliers see that there is a sufficient volume of business to justify that's happening.

A good example, not maquiladora related, but that I think serves as an apt example is what's been happening in Socorro at the center for technical excellence for explosives. A number of firms who work in the field of explosive technology have established small operations in Socorro. Those operations are growing because of the unique opportunity that that center provided. Now the maquiladoras provide that same kind of opportunity for domestic firms and for international firms and within the past 6 months there has been a great deal of activity, of increased activity, on the part of foreign firms. I know that Mr. Min Lee, who is here, can speak to this better than I, but one Taiwanese firm has already indicated an intention of setting up an operation in the Columbus Industrial Park because it is a supplier, and because it knows it's going to be able to have its product manufactured in a cost-effective manner, because of that location.

Senator **Bingaman**. All right. Well, that was the question that I had. We appreciate your coming very much and particularly taking time away from your family. Thank you very much.

Mr. **Zanetti**. Senator. Thank you for the opportunity.

Senator **Bingaman**. We will go to our two remaining witnesses; Salvador, why don't you go ahead. This is Salvador Gonzalez Barney, who is with the Economic Development and Tourism Department of the State of New Mexico. He was kind enough to come to our hearing yesterday in Las Cruces, so he's as familiar as any of us with what's been said so far. We appreciate your being here.

STATEMENT OF SALVADOR GONZALEZ BARNEY, REPRESENTATIVE OF THE NEW MEXICO TRADE OFFICE, NEW MEXICO DEPARTMENT OF ECONOMIC DEVELOPMENT AND TOURISM, AND NEW MEXICO DEPARTMENT OF AGRICULTURE

Mr. **Gonzalez Barney**. Thank you, Senator. It's a pleasure to be here and I appreciate the opportunity of making this presentation.

The title of my presentation is the New Mexico Perspective in the Maquiladora Industry. First, the background. The development of the maquiladora industry on the border. The maquiladora industry began approximately 22 years ago. President Adolfo Lopez Mateos foreseeing the high unemployment Mexico would have because of the termination of the Brazero program instituted the Programa Fronterizo. The objective of the Programa Fronterizo was to generate work for the people coming back to Mexico. This "border program" was the beginning of the maquiladora industry, which is also referred to as twin plants, in-bond, off-shore, and production sharing operations.

The first maquiladora operation began in Tijuana, Baja California, but the industry took root in Cd. Juarez, Chihuahua. Due to the efforts of Grupo Bermudez, RCA was the first large plant to begin operations in the Antonio J. Bermudez Industrial Park. RCA gave the project credibility and from there other companies began moving their labor intensive operations to Juarez. As of the end of 1986, there are in the order of 220 maquiladoras in Juarez and 1,200 throughout the Republic of Mexico.

The trend of late has been to initiate maquiladora operations in smaller communities and to stay away from the large cities like Cd. Juarez and El Paso. This is beneficial to us in New Mexico because it will give us an opportunity to develop Columbus-Palomas and, of course, Santa Teresa.

The economic impact of the maquiladora industry in the United States and Mexico. Several studies have been made with the objective of assessing the impact the maquiladora industry has on our economy. One such study is Project Link. It's an investigation of the employment linkage between Cd. Juarez and El Paso, presented by Mr. Richard Sprinkle, assistant professor of economics and finance at UTEP.

Following are some of the conclusions. The El Paso rate of employment growth from 1977 to 1985 lags behind not only that of her sister city, Cd. Juarez, but also those of the State of Texas and Chihuahua.

Cd. Juarez's rate of employment growth between 1981 and 1985 has out performed that of its sister city, El Paso, as well as those of the State of Texas and Chihuahua.

The maquiladora industry is a major economic stimulus for employment growth in Cd. Juarez and El Paso. In Juarez alone, the maquiladora industry provides 85,000 jobs. In Juarez the median age is less than 24 years, and approximately 50 percent of the population is 18 years or less. As a result, the community has more than 30,000 employable members being added to the labor force annually. This labor pool has fueled the rapid expansion of the maquiladora industry in Cd. Juarez as evidenced by the 17.8 percent increase in employment from 1981 to 1985.

El Paso enjoys a diversified economy, yet experiences a low employment growth rate of only 3.2 percent and a high unemployment rate of 13.5 percent. In contrast, Cd. Juarez has an economy dominated by two sectors, manufacturing and retail trade, yet it exhibits a rapid employment growth rate of 17.8 percent and relatively low unemployment by Mexican standards.

Approximately 6,000 new jobs have been generated in El Paso as a result of the maquiladora program.

Senator BINGAMAN. How many thousand?

Mr. GONZALEZ BARNEY. 6,000.

Senator BINGAMAN. 6,000 in El Paso?

Mr. GONZALEZ BARNEY. In El Paso. Each 10 percent increase in maquiladora employment results in 2 to 3 percent increase in employment in El Paso, due to the development of service industries that support maquiladora operations, such as transportation, communications, construction, customs brokerage, and warehousing.

Each 10 percent increase in maquiladora employment increases sales in El Paso by 11 percent, which is explained by the purchasing of support materials and services.

The economy in Cd. Juarez accounted for 23.7 percent of El Paso's employment growth, thereby, generating approximately one in every four new jobs in the city. Although the growth of the U.S. economy is the primary determinant of new job creation in El Paso providing three of the four new jobs, the economy of Cd. Juarez is obviously a significant contributor to the city's employment growth rate.

Project Link was a study specifically about the El Paso-Juarez communities, but in addition, the border trade alliance did a study to investigate the extent to which the maquiladora industry is integrated nationwide. The border trade alliance, which we are members of, represents a coalition of border communities which endorse and encourage those policies which promote and enhance border trade. The study entitled "Border Trade Alliance Addendum & Research Data," incorporated two independent surveys. The first survey was the Census of Maquiladora Plants. Questionnaires were distributed to maquiladora plants located along the U.S.-Mexican border. These communities are Brownsville-Matamoros, McAllen-Reynosa, Laredo-Nuevo Laredo, Del Rio-Cd. Acuna, El Paso-Cd.

Juarez, Douglas-Agua Prieta, Nogales-Nogales, Calexico-Mexicali, Eagle Pass-Piedras Negras, and San Ysidro-Tijuana. Local maquiladora associations were responsible for distribution of questionnaires. Responses were mailed to UTEP.

The second survey was maquiladora shipment data. A convenience sample of two U.S. motor carriers from four U.S.-Mexico ports of entry were selected to provide actual maquiladora shipment data by destination and origin for 1 month, April 1985. The ports of entry were Brownsville, El Paso, Nogales, and San Ysidro. The two surveys gathered data to answer the following questions: First, the location by city and State of the parent plant; the direct customer; and the major supplier. The second question was the number of jobs at the above facilities that are directly dependent on a reliable supply of material and components from the maquiladora plants. And the third question was the destination and origin of maquiladora shipments within the United States. The preliminary results of these two surveys, there were a total of 140 questionnaires representing 140 of approximately 900 plants, indicated that these respondents supported over 1,400 maquiladora related facilities, which include parent plants, direct customers and major suppliers, and approximately 800,000 U.S. jobs.

These are only two of several studies that show that the maquiladora industry has a positive impact on the U.S. economy, contrary to the belief of some groups.

Now, the maquiladora industry in New Mexico, present development. There are four companies directly involved in the maquiladora industry in New Mexico: Createc; Micro Switch, which is a division of Honeywell; Foamex; and Bacchus Industries.

Createc actively employs 22 people. They have shipping needs that are serviced by the El Paso freight companies and their primary market are maquiladoras in Cd. Juarez.

Micro Switch directly employs approximately 300 people in Las Cruces and 100 people in El Paso. Since their arrival, Micro Switch has developed significant local sources of materials. For example, corrugated paper for packaging and office supplies. They are one of the primary reasons a Roadway trucking terminal was established in Las Cruces.

Foamex in Santa Teresa has been in operation since January 1987. They employ 80 people and supply the foam used in Ford motorcars. Once the plant is in full operation, they are going to look into selling their product in Mexico to other users of foam.

Bacchus Industries in Sundland Park manufacturers evaporative air conditioners for the residential and commercial market. The company employs 35 people in the Sunland Park plant and 100 in their Juarez operation. Bacchus Industries has applied to the Mexican Government for a permit that would allow them to sell their product in the Mexican market. The outcome is still pending.

This is presently the extent of New Mexico's involvement in the maquiladora industry. Of the four border States, California, Arizona, and Texas, New Mexico is the State with the smallest number of firms involved in the maquiladora industry. California has 32 parent plants providing 5,391 jobs. Arizona has 14 parent plants providing 1,038 jobs. And Texas has 47 parent plants providing

3,690 jobs. And these are the parent plants, not including suppliers or customers.

Future development of Columbus-Palomas, Santa Teresa. A couple of the reasons why the maquiladora industry has grown as fast as it has is because of the peso devaluating, and the large available labor force. There is some correlation between the size of the population in the Mexican community and the number of maquilas operating in that community. However, the size of the U.S. community has no effect on what transpires on the Mexican side. For example, Calexico, CA has a population of 17,000, but across the border Mexicali, Baja California has 800,000 and 84 maquiladoras. In addition, the size of the U.S. community has no bearing on the number of maquiladora related operations in that community. For example, Eagle Pass, TX has a population of 23,000 and seven maquiladora related operations, but Del Rio with a population of 45,000 only has three. Based on these examples, it seems to me that the communities that have the largest number of maquiladoras have been the ones that have gone after the business aggressively.

So what do we do to industralize the New Mexico border? Luna County, NM, which encompasses Columbus and Deming has a population of 17,500 and Palomas, Chihuahua has a population of at most 7,000. This is, of course, our biggest disadvantage, the fact that we do not have a large population on the Mexican side. But Palomas can sustain small maquiladora operations. We already have had inquiries from firms that are looking at operations of 20 to 30 employees. That was the way Tijuana, Baja California started with small operations like that.

But what is important in the long run, given that the maquiladora industry in Mexico will continue to grow, is to team up a developer on the U.S. side with a developer on the Mexican side and together design a master plan for the next 10 to 15 years to build a corridor between Palomas and Santa Teresa. The idea would be to leave Palomas alone and start to develop the industrial park a couple of miles east of the town. Plant managers could live in Santa Teresa and drive to Palomas, it would be about an hour's drive. That is about how long it takes to cross the bridge in Juarez to El Paso. We have spoken to several Mexican industrial park developers and two of them are assessing the project. If the labor force in Palomas become too small, it would not be farfetched to bus the workers from dense populated areas. Mexico City has been bussing workers to their plant facilities located in the State of Mexico for years.

Santa Teresa already has a master plan, and Mr. Charlie Crowder has part of it already on its way. In addition, Grupo Bermudez is the Mexican developer, the same group that started the maquiladora industry in Mexico. The master plan would develop a community on the Mexican side complete with housing, schools, and hospitals.

Conclusion, improving the New Mexico border economy. The communities that border with Mexico are known to have the lowest per capita income in the State. But the communities in Mexico that border the United States are known to have the highest per capita income in the country. The citizens of these Mexican communities have made the effort of trading with the people on the U.S. side, whether it be a restaurant that caters to the American public or an upholstery shop. We on the U.S. side of the border need to develop the same attitude, we need to capitalize on their resources that accommodate so well the maquiladora industry. Numbers show that as the maquiladora industry grows on the Mexican side, so does the economy on the U.S. side and we on the border do not have much more to offer other than hard working people and available real estate. I will conclude by saying that the best part of El Paso is Cd. Juarez and the best part of Cd. Juarez is El Paso, and that holds true for the rest of the communities along with 1,800 miles of border that we have. Thank you very much.

[The prepared statement of Mr. Gonzalez Barney follows:]

PREPARED STATEMENT OF SALVADOR GONZALEZ BARNEY

OUTLINE:

NEW MEXICO PERSPECTIVE IN THE MAQUILADORA INDUSTRY

I. BACKGROUND
  A. THE DEVELOPMENT OF THE MAQUILADORA INDUSTRY ON THE BORDER
  B. ECONOMIC IMPACT OF THE MAQUILADORA INDUSTRY IN THE U.S & MEXICO.

II. THE MAQUILADORA INDUSTRY IN NEW MEXICO
  A. PRESENT DEVELOPMENT
  B. FUTURE DEVELOPMENT: BORDER INDUSTRIALIZATION
    1. COLUMBUS\PALOMAS
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III. CONCLUSION
  A. IMPROVING THE BORDER ECONOMY
    1. COLUMBUS\PALOMAS
    2. SANTA TERESA
    3. SUNDLAND PARK

I. BACKGROUND

A. THE DEVELOPMENT OF THE MAQUILADORA INDUSTRY ON THE BORDER

THE MAQUILADORA INDUSTRY (MI) BEGAN APPROXIMATELY TWENTY-TWO YEARS AGO. PRESIDENT ADOLFO LOPEZ MATEOS FORESEEING THE HIGH UNEMPLOYMENT MEXICO WOULD HAVE BECAUSE OF THE TERMINATION OF THE BRAZERO PROGRAM INSTITUTED THE PROGRAMA FRONTERIZO. THE OBJECTIVE OF THE PROGRAMA FRONTERIZO WAS TO GENERATE WORK FOR THE PEOPLE COMING BACK TO MEXICO. THIS "BORDER PROGRAM" WAS THE BEGINNING OF THE MI, WHICH IS ALSO REFERRED TO AS TWIN PLANTS, IN-BOND, OFF-SHORE AND PRODUCTION SHEARING OPERATIONS.

THE FIRST MAQUILADORA OPERATION BEGAN IN TIJUANA, BAJA CALIFORNIA BUT THE INDUSTRY TOOK ROOT IN CD. JUAREZ, CHIHUAHUA. DUE TO THE EFFORTS OF GRUPO BERMUDEZ, RCA WAS THE FIRST LARGE PLANT TO BEGIN OPERATIONS IN THE ANTONIO J. BERMUDEZ INDUSTRIAL PARK. RCA GAVE THE PROJECT CREDIBILITY AND FROM THERE OTHER COMPANIES BEGAN MOVING THEIR LABOR INTENSIVE OPERATIONS TO JUAREZ. AS OF THE END OF 1986, THERE ARE IN THE ORDER OF 220 MAQUILADORAS IN JUAREZ AND 1200 THROUGHOUT THE REPUBLIC OF MEXICO.

THE TREND OF LATE HAS BEEN TO INITIATE MAQUILA OPERATIONS IN SMALLER COMMUNITIES AND TO STAY AWAY FROM THE LARGE CITIES LIKE CD. JUAREZ\EL PASO. THIS IS BENEFICIAL TO US IN NEW MEXICO BECAUSE IT WILL GIVE US AN OPPORTUNITY TO DEVELOP COLUMBUS\PALOMAS AND OF COURSE SANTA TERESA.

B. ECONOMIC IMPACT OF THE MAQUILADORA INDUSTRY IN THE U.S. & MEXICO

SEVERAL STUDIES HAVE BEEN MADE WITH THE OBJECTIVE OF ASSESSING THE IMPACT THE MI HAS ON OUR ECONOMY. ONE SUCH STUDY IS PROJECT LINK " AN INVESTIGATION OF THE EMPLOYMENT LINKAGE BETWEEN CD. JUAREZ AND EL PASO", PRESENTED BY DR. RICHARD SPRINKLE; ASSIT. PROF. OF ECONOMICS AND FINANCE, UNIVERSITY OF TEXAS AT EL PASO.

FOLLOWING ARE SOME OF THE FINDINGS AND CONCLUSIONS:

1. EL PASO'S RATE OF EMPLOYMENT GROWTH (1977-85) LAGS BEHIND NOT ONLY THAT OF HER SISTER CITY, CD. JUAREZ, BUT ALSO THOSE OF THE STATE OF TEXAS AND CHIHUAHUA.

2. CD. JUAREZ'S RATE OF EMPLOYMENT GROWTH (1981-85) HAS OUT PERFORMED THAT OF ITS SISTER CITY, EL PASO, AS WELL AS THOSE OF THE STATE OF TEXAS AND CHIHUAHUA.

3. THE MAQUILADORA INDUSTRY IS A MAJOR ECONOMIC STIMULUS FOR EMPLOYMENT GROWTH IN CD. JUAREZ AND EL PASO. IN JUAREZ ALONE, THE MI PROVIDES 85,000 JOBS.

4. THE MEDIAN AGE IS LESS THAN TWENTY-FOUR YEARS, AND APPROXIMATELY FIFTY PERCENT OF THE POPULATION IS EIGHTEEN YEARS OR LESS. AS A RESULT, THE COMMUNITY HAS MORE THAN THIRTY THOUSAND EMPLOYABLE MEMBERS BEING ADDED TO THE LABOR FORCE ANNUALLY. THIS LABOR POOL HAS FUELED THE RAPID EXPANSION OF THE MAQUILADORA INDUSTRY IN CD. JUAREZ AS EVIDENCED BY THE 17.8% ANNUAL INCREASE IN EMPLOYMENT (1981-85).

5. EL PASO ENJOYS A DIVERSIFIED ECONOMY YET EXPERIENCES A LOW EMPLOYMENT GROWTH RATE OF 3.2% AND A HIGH UNEMPLOYMENT RATE OF 13.5%. IN CONTRAST, CD. JUAREZ HAS AN ECONOMY DOMINATED BY TWO SECTORS, MANUFACTURING AND RETAIL TRADE, YET IT EXHIBITS A RAPID EMPLOYMENT GROWTH RATE OF 17.8% AND RELATIVELY LOW UNEMPLOYMENT BY MEXICAN STANDARDS.

6. APPROXIMATELY 6,000 NEW JOBS HAVE BEEN GENERATED IN EL PASO AS A RESULT OF THE MAQUILADORA PROGRAM. (MITCHEL, 1984).

7. EACH 10% INCREASE IN MI EMPLOYMENT RESULTS IS A 2 TO 3% INCREASE IN EMPLOYMENT IN EL PASO DUE TO THE DEVELOPMENT OF SERVICE INDUSTRIES THAT SUPPORT MAQUILA OPERATIONS, SUCH AS TRANSPORTATION, COMMUNICATIONS, CONSTRUCTION, CUSTOMS BROKERAGE AND WAREHOUSING. (HOLDEN, 1984).

8. EACH 10% INCREASE IN MI EMPLOYMENT INCREASES SALES IN EL PASO BY

11% WHICH IS EXPLAINED BY THE PURCHASING OF SUPPORT MATERIALS AND SERVICES. (HOLDEN, 1984).

9. THE ECONOMY IS CD. JUAREZ ACCOUNTED FOR 23.7% OF EL PASO'S EMPLOYMENT GROWTH, THEREBY GENERATING APPROXIMATELY ONE IN EVERY FOUR NEW JOBS IN THE CITY. ALTHOUGH THE GROWTH OF THE U.S. ECONOMY IS THE PRIMARY DETERMINANT OF NEW JOB CREATION IN EL PASO PROVIDING THREE OF FOUR NEW JOBS, THE ECONOMY OF CD. JUAREZ IS OBVIOUSLY A SIGNIFICANT CONTRIBUTOR TO THE CITY'S EMPLOYMENT GROWTH RATE.

PROJECT LINK WAS A STUDY OF SPECIFICALLY THE EL PASO\JUAREZ COMMUNITIES BUT IN ADDITION, THE BORDER TRADE ALLIANCE DID A STUDY TO INVESTIGATE THE EXTENT TO WHICH THE MI IS INTEGRATED NATION WIDE. THE BORDER TRADE ALLIANCE, WHICH WE ARE MEMBERS OF, REPRESENTS A COALITION OF BORDER COMMUNITIES WHICH ENDORSE AND ENCOURAGE THOSE POLICIES WHICH PROMOTE AND ENHANCE BORDER TRADE. THE STUDY ENTITLED BORDER TRADE ALLIANCE ADDENDUM & RESEARCH DATA INCORPORATED TWO INDEPENDENT SURVEYS:

1. CENSUS OF MAQUILADORA PLANTS: A QUESTIONER WAS DISTRIBUTED TO MAQILADORA PLANTS LOCATED IN U.S.- MEXICO BORDER COMMUNITIES.

BROWNSVILLE-MATAMOROS
MCALLEN-REYNOSA
LAREDO-NUEVO LAREDO
DEL RIO-CD. ACUNA

EL PASO-CD. JUAREZ
DOUGLAS-AGUA PRIETA
NOGALES-NOGALES
CALEXICO-MEXICALI

EAGLE PASS-PIEDRAS NEGRAS   SAN YSIDRO-TIJUANA

LOCAL MAQUILADORA ASSOCIATIONS WERE RESPONSIBLE FOR DISTRIBUTION. RESPONSES WERE MAILED TO THE UNIVERSITY OF TEXAS AT EL PASO.

2. MAQUILADORA SHIPMENT DATA: A CONVENIENCE SAMPLE OF TWO U.S. MOTOR CARRIERS FROM FOUR U.S.-MEXICO PORTS OF ENTRY WERE SELECTED TO PROVIDE ACTUAL MAQUILADORA SHIPMENT DATA BY DESTINATION/ORIGIN FOR APRIL 1985. THE PORTS OF ENTRY WERE:

BROWNSVILLE   EL PASO   NOGALES   SAN YSIDRO

THE TWO SURVEYS GATHERED DATA TO ANSWER THE FOLLOWING QUESTIONS:

1. THE LOCATION BY CITY/STATE OF PARENT PLANT,
   THE LOCATION BY CITY/STATE OF DIRECT CUSTOMER,
   THE LOCATION BY CITY/STATE OF MAJOR SUPPLIER

2. THE NUMBER OF JOBS AT THE ABOVE FACILITIES THAT ARE DIRECTLY DEPENDENT ON A RELIABLE SUPPLY OF MATERIAL/COMPONENTS FROM THE MAQUILADORA PLANTS.

3. THE DESTINATION/ORIGIN OF MAQUILADORA SHIPMENTS WITHIN THE U.S.

PRELIMINARY RESULTS:

A TOTAL OF 140 QUESTIONERS, REPRESENTING 140 OF APPROXIMATELY 900 PLANTS, INDICATE THAT THESE RESPONDENTS SUPPORT OVER 1400 MAQUILADORA

RELATED FACILITIES (PARENT PLANTS, DIRECT CUSTOMERS & MAJOR SUPPLIERS) AND APPROXIMATELY 800,000 U.S. JOBS.

THESE ARE ONLY TWO OF SEVERAL STUDIES THAT SHOW THAT THE MAQUILADORA INDUSTRY HAS A POSITIVE IMPACT ON THE U.S. ECONOMY, CONTRARY TO THE BELIEF OF SOME GROUPS.

II. THE MAQUILADORA INDUSTRY IN NEW MEXICO

A. PRESENT DEVELOPMENT

THERE ARE FOUR COMPANIES DIRECTLY INVOLVED IN THE MI IN NEW MEXICO: CREATEC, MICROSWITCH (A DIVISION OF HONEYWELL), FOAMEX AND BACCHUS INDUSTRIES.

CREATEC ACTIVELY EMPLOYS 22 PEOPLE. THEY HAVE SHIPPING NEEDS THAT ARE SERVICED BY THE EL PASO FREIGHT COMPANIES AND THEIR PRIMERY MARKET ARE MAQUILADORAS IN CD. JUAREZ.

MICROSWITCH DIRECTLY EMPLOYS APPROXIMATELY 300 PEOPLE IN LAS CRUCES AND 100 PEOPLE IN EL PASO. SINCE THEIR ARRIVAL, MICROSWITCH HAS DEVELOPED SIGNIFICANT LOCAL SOURCES OF MATERIALS, I.E., CORRUGATED PAPER FOR PACKAGING AND OFFICE SUPPLIES. THEY ARE ONE OF THE PRIMERY REASONS A ROADWAY TRUCKING TERMINAL WAS ESTABLISHED IN LAS CRUCES.

FOAMEX IN SANTA TERESA HAS BEEN IN OPERATION SINCE JANUARY OF 87. THEY EMPLOY 80 PEOPLE AND SUPPLY THE FOAM USED IN FORD MOTOR CARS.

ONCE THE PLANT IS IN FULL OPERATION, THEY ARE GOING TO LOOK INTO SELLING THEIR PRODUCT IN MEXICO TO OTHER USERS OF FOAM.

BACCHUS INDUSTRIES IN SUNDLAND PARK MANUFACTURES EVAPORATIVE AIR CONDITIONERS FOR THE RESIDENTIAL AND COMMERCIAL MARKET. THE COMPANY EMPLOYS 35 PEOPLE IN THE SUNDLAND PARK PLANT AND 100 IN THEIR JUAREZ OPERATION. BACCHUS INDUSTRIES HAS APPLIED TO THE MEXICAN GOVERNMENT FOR THE PERMIT THAT WOULD ALLOW THEM TO SELL THEIR PRODUCT IN THE MEXICAN MARKET. THE OUTCOME IS STILL PENDING.

THIS IS PRESENTLY THE EXTENT OF NEW MEXICO'S INVOLVMENT IN THE MI. OF THE FOUR BORDER STATES: CALIFORNIA, ARIZONA AND TEXAS, NEW MEXICO IS THE STATE WITH THE SMALLEST NUMBER OF FIRMS INVOLVED IN THE MI. CALIFORNIA HAS 32 PARENT PLANTS PROVIDING 5,391 JOBS, ARIZONA HAS 14 PARENT PLANTS PROVIDING 1,038 JOBS AND TEXAS HAS 47 PARENT PLANTS PROVIDING 3,690 JOBS.

B. FUTURE DEVELOPMENT: BORDER INDUSTRIALIZATION

1. COLUMBUS/PALOMAS

2. SANTA TERESA

A COUPLE OF THE REASONS WHY THE MI HAS GROWN AS FAST AS IT HAS IS BECAUSE OF THE PESO DEVALUATING AND THE LARGE AVAILABLE LABOR FORCE. THERE IS SOME CORRELATION BETWEEN THE SIZE OF THE POPULATION IN THE MEXICAN COMMUNITY AND THE NUMBER OF MAQUILAS OPERATING IN THAT COMMUNITY. HOWEVER, THE SIZE OF THE U. S. COMMUNITY HAS NO EFFECT ON WHAT TRANSPIRES ON THE MEXICAN SIDE. FOR EXAMPLE, CALEXICO, CALIFORNIA HAS A POPULATION OF ONLY 17,000 BUT ACROSS THE BORDER MEXICALI, BAJA CALIFORNIA HAS 800,000 AND 84 MAQUILADORAS. IN ADDITION, THE SIZE OF THE U.S. COMMUNITY HAS NO BEARING ON THE NUMBER OF MAQUILADORA RELATED OPERATIONS IN THAT COMMUNITY. FOR EXAMPLE, EAGLE PASS, TEXAS HAS A POPULATION OF 23,000 AND SEVEN (7) MAQUILA RELATED OPERATION BUT DEL RIO WITH A POPULATION OF 45,000 ONLY HAS THREE (3) MAQUILA RELATED OPERATIONS. BASED ON THESE EXAMPLES, IT SEEMS TO ME THAT THE COMMUNITIES THAT HAVE THE LARGEST NUMBER OF MAQUILADORAS HAVE BEEN THE ONES THAT HAVE GONE AFTER THE BUSINESS AGGRESSIVELY.

SO HOW DO WE GO ABOUT INDUSTRIALIZING THE NEW MEXICO BORDER? LUNA COUNTY, NEW MEXICO WHICH ENCOMPASSES COLUMBUS AND DEMING HAS A POPULATION OF 17,500 AND PALOMAS, CHIHUAHUA HAS A POPULATION OF AT MOST 7,000. THIS IS OF COARSE OUR BIGGEST DISADVANTAGE, THE FACT THAT WE DO NOT HAVE A LARGE POPULATION ON THE MEXICAN SIDE. BUT PALOMAS CAN

SUSTAIN SMALL MAQUILADORA OPERATIONS; WE ALREADY HAVE HAD INQUIRIES FROM FIRMS THAT ARE LOOKING AT OPERATIONS OF 20 OR 30 EMPLOYEES. THAT IS THE WAY TIJUANA, BAJA CALIFORNIA STARTED, WITH SMALL OPERATIONS LIKE THESE.

BUT WHAT IS IMPORTANT IN THE LONG RUN, GIVEN THAT THE MI IN MEXICO WILL CONTINUE TO GROW, IS TO TEAM-UP A DEVELOPER ON THE U.S. SIDE WITH A DEVELOPER ON THE MEXICAN SIDE AND TOGETHER DESIGN A MASTER PLAN FOR THE NEXT 10 TO 15 YEARS TO BUILD A CORRIDOR BETWEEN PALOMAS AS SANTA TERESA. THE IDEA WOULD BE TO LEAVE PALOMAS ALONE AND START TO DEVELOP THE INDUSTRIAL PARK A COUPLE OF MILES EAST OF THE TOWN. PLANT MANAGERS COULD LIVE IN SANTA TERESA AND DRIVE TO PALOMAS, IT WOULD ONLY BE ABOUT AND HOURS DRIVE. THAT IS ABOUT HOW LONG IT TAKES TO CROSS THE BRIDGE FROM JUAREZ TO EL PASO. WE HAVE SPOKEN TO SEVERAL MEXICAN INDUSTRIAL PARK DEVELOPERS AND TWO OF THEM ARE ASSESSING THE PROJECT. IF THE LABOR FORCE IN PALOMAS BECAME TOO SMALL, IT WOULD NOT BE FAR FETCHED TO BUS THE WORKERS FROM DENSE POPULATED AREAS. MEXICO CITY HAS BEEN BUSSING WORKERS TO PLANT FACILITIES LOCATED IN THE STATE OF MEXICO FOR YEARS.

SANTA TERESA ALREADY HAS A MASTER PLAN, AND MR. CHARLIE CROWDER HAS PART OF IT ALREADY ON ITS WAY. IN ADDITION, GRUPO BERMUDEZ IS THE MEXICAN DEVELOPER, THE SAME GROUP THAT STARTED THE MI IN MEXICO. THE MASTER PLAN WOULD DEVELOP A COMMUNITY ON THE MEXICAN SIDE COMPLETE WITH HOUSING, SCHOOLS AND HOSPITALS.

III. CONCLUSION

A. IMPROVING THE NEW MEXICO BORDER ECONOMY

THE COMMUNITIES THAT BORDER WITH MEXICO ARE KNOWN TO HAVE THE LOWEST PER CAPITA INCOME IN THE STATE. BUT THE COMMUNITIES IN MEXICO THAT BORDER THE U.S. ARE KNOWN TO HAVE THE HIGHEST PER CAPITA INCOME IN THE COUNTRY. THE CITIZENS OF THESE MEXICAN COMMUNITIES HAVE MADE THE EFFORT OF TRADING WITH THE PEOPLE ON THE U.S. SIDE, WHETHER IT BE A RESTAURANT THAT CATERS TO THE AMERICAN PUBLIC OR AN UPHOLSTERY SHOP. WE ON THE U.S. SIDE OF THE BORDER NEED TO DEVELOP THE SAME ATTITUDE, WE NEED TO CAPITALIZE ON THEIR RESOURCES THAT ACCOMMODATE SO WELL THE MI. NUMBERS SHOW THAT AS THE MI GROWS ON THE MEXICAN SIDE, SO DOES THE ECONOMY ON THE U.S. SIDE AND WE ON THE BORDER DO NOT HAVE THAT MUCH MORE TO OFFER OTHER THAN HARD WORKING PEOPLE AND AVAILABLE REAL ESTATE. I WILL CONCLUDE BY SAYING THAT THE BEST PART OF EL PASO IS CD. JUAREZ AND THE BEST PART OF CD. JUAREZ IS EL PASO AND THAT HOLDS TRUE FOR THE REST OF THE COMMUNITIES ALONG THE 1800 MILES OF BORDER. THANK YOU VERY MUCH.

Senator **Bingaman**. Thank you very much. Let me ask a couple of questions here before we move on, because I think you've raised some very interesting issues. You're suggesting that there is an opportunity to create a maquila operation east of Palomas, which would use the labor force in Palomas and also other workers who would be bussed in, is that right?

Mr. **Gonzalez Barney**. Yes. Palomas can support—the 7,000 population number that we got was based on the community surrounding Palomas and Palomas proper. You will have about a work force of 300 people, 250. We are not really certain yet, because the study is being done. They can support 10 small plants. When the development requires more labor force, and we will have the road paved between Santa Teresa and Palomas, to be able to bus people back and forth, while the infrastructure is developing in Palomas.

Senator **Bingaman**. What is the advantage? How far east of Palomas are you talking about?

Mr. **Gonzalez Barney**. Well, it doesn't matter, as long as we don't have to get into whatever is there and start knocking down buildings or going into narrow streets. What I'm saying is justs develop a brand new industrial park that has the streets the way they are supposed to be, with black top to handle trailers, that's what I'm saying.

Senator **Bingaman**. So it would be essentially in Palomas or on the edge of Palomas.

Mr. **Gonzalez Barney**. Yes.

Senator **Bingaman**. And you would anticipate bringing workers back and forth from Santa Teresa.

Mr. **Gonzalez Barney**. Or wherever. It will be anywhere in the area that there will be—where they will have to be brought in.

Senator **Bingaman**. General Motors has a new plant in Nuevo Casa Grandes, is that correct?

Mr. **Gonzalez Barney**. That's correct.

Senator **Bingaman**. Are they using the Palomas port of entry?

Mr. **Gonzalez Barney**. No, they are not.

Senator **Bingaman**. Are there any maquila plants on the Mexican side using the Palomas port of entry?

Mr. **Gonzalez Barney**. Not now.

Senator **Bingaman**. Are there any planned that you are aware of?

Mr. **Gonzalez Barney**. It was attempted about 9 or 10 months ago and it was not—logistically was not, it didn't run well. So they went ahead and went back to the Juarez port of entry.

Senator **Bingaman**. That was because of problems in the handling of the transportation or was it problems in the distances?

Mr. **Gonzalez Barney**. No, it was the actual crossing, the actual paperwork and the logistics of getting the trader from the Mexican side to the American side.

Unknown Speaker. I have an expert opinion for Salvador. Maybe the reason why is that the Nuevo Casa Grandes is too small, that creating a new customs in the old system is not working, so that is why they are using Juarez. Particularly General Motors, they had plants in Juarez, Casa Grandes, Matamoros, Chihuahua, and I guess they're opening a new one in Quemado, so that's why—the main reason, to my understanding, is that the plan—the port of entry from Palomas is not used yet, because the system is not strong enough, that's why.

Senator **Bingaman**. Would you identify yourself for the record, please.

Mr. **Castaneda**. I'm Carlos Castaneda from the Juarez Chamber in Juarez.

Senator **Bingaman**. What you're saying though is that the anticipated improvements in the Palomas port of entry will make it a more appropriate entry point and it will be used once those improvements are made?

Mr. **Castaneda**. As long as they have more plants and more transportation of goods to the United States, I would say that, yes, in a few years, 2 or 3 maybe, it all depends on the progress on the area. That's what I was saying.

Senator **Bingaman**. Yes. Thank you very much.

Mr. **Gonzalez Barney**. A company who's there, about an hour and a half from Casa Grandes, if you went through Deming, I mean Palomas, in lieu of going through Juarez, El Paso, but the logistics or infrastructure isn't there to handle that, the trucks. It was already attempted. There's a coupon redemption company in Casa Grandes that tried to go through Palomas and it didn't work. It took longer than going to Juarez.

Senator **Bingaman**. Is that something that is being fixed?

Mr. **Gonzalez Barney**. I believe so, Senator.

Senator **Bingaman**. I know we have been building a new building there at Palomas. Is that going to resolve the problem?

Mr. **Gonzalez Barney**. I believe the problem was on the Mexican side.

Senator **Bingaman**. On the Mexican side?

Mr. **Gonzalez Barney**. Yes.

Senator **Bingaman**. All right. Why don't we go ahead with Mr. Castillo's statement and then I may have another question or two if you are able to stay.

Mr. Castillo, you've been very patient. Roberto Castillo is the business broker with the Vaughan Co. here in Albuquerque and very active in these international trade issues, particularly for the Hispano Chamber. We appreciate your being here.

STATEMENT OF ROBERTO CASTILLO, FOREIGN TRADE CONSULTANT-BUSINESS BROKER, THE VAUGHAN CO.

Mr. **Castillo**. Thank you, Senator. I wish first to thank you for the opportunity to suggest several actions to be taken by the State of New Mexico and Federal agencies in developing mechanisms for New Mexico companies to expand their international trade with Mexico and to become more economically competitive.

I'd like to sort of narrow in on the Albuquerque Hispano Chamber of Commerce's activities or initiatives with Mexico up to date.

I think it's pretty much common knowledge that up to 1970 the United States was the trade surplus Nation. After 1970, we have become a trade deficit country, except for the years 1973 and 1975. In 1986, we have spoken of the U.S. deficit which did amount to approximately $170 billion. Now in today's new world economy, and we should really be thinking in a global sense, the key to economic growth and prosperity lies in our ability to be economically competitive domestically, but even more importantly, internationally.

The Albuquerque Hispano Chamber of Commerce is uniquely suited to help New Mexico businesses take maximum advantage of existing, but as of yet, unexploited foreign trade opportunities between New Mexico and Mexico in a mutually beneficial interchange. I do mean to emphasize mutually beneficial interchange. This cannot be a one-way street.

Dealing in international trade does pose some fundamental problems such as approaching the right contacts through the proper channels and modifying American business or the American business pace to that of the host countries. The Albuquerque Hispano Chamber's International Trade Committee is a group that is composed of approximately 20, I'm sorry, composed of some seasoned volunteers in foreign trade with over 20 years of resident management experience abroad. This places the Hispano Chamber in a position to open doors, to make the appropriate introductions, explain the basic how-to steps, and handhold to some degree businesses that are going through their trying startup period with a minimum of time loss, frustrations, and cost.

For over 10 years, approximately, the Hispano Chamber has committed itself to the development of strong relationships, both personal and commercial, for the expansion of tourism, trade, and economic development between New Mexico and Mexico.

Notwithstanding State shifts in priorities, in administrations and directions, the Hispano Chamber has been able to maintain a continuous and growing commitment to build toward increasing tourism and trade development with Mexican Chambers of Commerce, government officials, educators, and business leaders.

The chamber's international trade committee has undertaken a number of positive initiatives toward increased tourism and trade with Mexico, and other Latin American countries. For example, in December 1986, the chamber hosted a roundtable of business leaders and chamber members from Ciudad Juarez and Chihuahua.

In January 1987, the chamber designated a trade mission to survey the Ciudad Juarez and Chihuahua business and industrial climate to establish concrete working relationships and set goals and objectives on which to initiate serious trade and tourism interchange.

In February, the chamber hosted a roundtable of delegates from Guadalajara, Jalisco—Guadalajara, Mexico, excuse me—for which a New Mexico trade mission is now pending.

In April 1987, preliminary trade mission letters were hand carried to the presidents of the chambers of Chiapas and Tabasco.

In May 1987, the Hispano Chamber hosted a USIA roundtable for 12 Central and South American business delegates who came to explore New Mexico's export-import and coinvestment opportunities.

And in May 1987, the chamber published its first opportunities bulletin on existing export-import and coinvestment opportunities in Ciudad Juarez and Chihuahua.

Also in May, the chamber developed a research process to identify export-import interests of businesses in both New Mexico and Mexico.

And currently and somewhat routinely, the chamber is in constant communication with Ciudad, Juarez, Chihuahua and Guadalajara Chambers in order to keep itself updated on current events.

During this data processing or gathering process, rather, the Hispano Chamber's International Trade Committee has come up with a number of significant findings. First, a Mexican import-export wants list.

Two, a list of New Mexico twin-plan participating companies. These consist of about 105 companies.

Three, that Ciudad Juarez alone in 1986 imported $160 million of U.S. nonmaquila goods in the following categories: Basic foods, such as staples, approximately $66 million; semibasics, foodstuffs, tools, and spares, $15 million; nonessential items, such as electrical and electronic equipment, $35 million; and automobiles on a per-quota basis, $44 million.

Fourth, that over 700 U.S. corporations are producing goods for the U.S. markets within a day's travel time from New Mexico's borders. We comprise about 105 of those, we believe.

Fifth, that the Mexicans desires are the following: To complement and not to compete with New Mexico's trade objectives; to diversify away from their dependence on a Texas connection; to take advantage of Mexico's newly acquired GATT status; to develop Mexican industry for increased export trade; and to find New Mexico coinvestors for Mexican business ventures.

Six, the Mexican thrust appears to be: to buy from and to sell to New Mexico; to develop a tourism corridor between Mexico and New Mexico; to modernize border customs procedures to facilitate the export-import process; to promote the maquiladoras national priority status; and to seek markets beyond its borders, preferably in New Mexico.

And seven, interestingly enough, much of the business leadership in Ciudad Juarez, Chihuahua, Chiapas, Guadalajara and Tabasco with whom we have been in contact, is somewhat unaware of New Mexico's staff responsibility for increasing tourism and trade between Mexico and New Mexico. We don't seem to focus centrally on an information center and, therefore, there is some appearance of being disjointed.

It is proposed that the State of New Mexico and Federal agencies contract with the Hispano Chamber's International Trade Committee to provide ongoing leadership in order to place New Mexico in a posture to increase its tourism and trade interchange with the growing international business opportunities now resulting in Mexico.

Specifically, the international trade committee would provide the following: One, a centrally located international trade office for the consulting use of New Mexico businesses who wish to enter into or increase their export-import interchange with Mexico.

Two, research data on existing, new and developing opportunities to increase New Mexico's tourism, trade, and coinvestment in Mexico.

Three, centralized computer data to matching communities, businesses in New Mexico with growing economic opportunities in Mexico and to Mexican Chambers of Commerce.

Fourth, a clearing house for New Mexico businesses and industry who desire to increase their trade, manufacturing, or service business throughout Mexico.

Five, regular training sessions for New Mexico businesses and communities desiring to do business with Mexico.

Six, routine recommendations and directions for the State to position itself, its small businesses and communities to increase tourism and business opportunities in Mexico.

And finally, seven, special projects as indicated by the State.

The feeling is that through a concentrated focus on the existing and emerging Mexican market opportunities, New Mexican companies can increase their economic competitiveness and benefit New Mexico's economy. There is a genuine need for New Mexico to improve its foreign trade posture and become more proficient in the use of expanded international trade.

The Hispano Chamber, we feel, can be very instrumental in positioning New Mexico's small businesses to take advantage of Mexico's preferential desire to do business with New Mexico. However, to do so effectively, we feel that serious consideration should be given to the above proposal and its execution as soon as possible. Thank you.

[The prepared statement of Mr. Castillo follows:]

PREPARED STATEMENT OF ROBERTO CASTILLO

I WISH TO THANK YOU FOR THE OPPORTUNITY TO SUGGEST SEVERAL ACTIONS TO BE TAKEN BY THE STATE OF NEW MEXICO AND FEDERAL AGENCIES IN ORDER TO DEVELOP MECHANISMS FOR NEW MEXICO COMPANIES TO EXPAND THEIR INTERNATIONAL TRADE INTERCHANGE WITH MEXICO, BECOME MORE ECONOMICALLY COMPETITIVE AND CONTRIBUTE TO THE REDUCTION OF THE UNITED STATE'S TRADE DEFICIT.

FOREIGN TRADE RECAP

UP TO 1970 THE UNITED STATES WAS A TRADE SURPLUS NATION. AFTER 1970 WE BECAME A TRADE DEFICIT COUNTRY EXCEPT FOR 1973 AND 1975.

IN 1986 FOREIGN TRADE TOTALED $604 BILLION WITH IMPORTS OF $387 BILLION, EXPORTS OF $217 BILLION AND A TRADE DEFICIT OF $170 BILLION.

*EXPORTS - MADE UP 20% OF U.S. PRODUCTION AND AGRICULTURAL OUTPUT.

*EXPORTS - COMPRISED OF 78% MANUFACTURED GOODS, 12% AGRICULTURAL COMMODITIES AND 10% MINERAL FUELS AND CRUDE MINERALS.

*EXPORTS - CREATED 25,800 U.S. JOBS PER $1 BILLION OF U.S. MERCHANDISE.

*EXPORTS - ACCOUNTED FOR 5.5 MILLION U.S. JOBS IN 1985.

*EXPORTS - ACCOUNTED FOR 1 IN 6 MANUFACTURING JOBS IN 1985.

*EXPORTS - LED BY CAPITAL GOODS FOLLOWED BY INDUSTRIAL SUPPLIES AND MATERIALS, FOOD, FEED, BEVERAGES AND AUTOMOBILE PRODUCTS.

*EXPORTS - BUSINESS SERVICES MADE UP 1/5 THE PRODUCT VOLUME ($45MM).

*EXPORTS - LED BY CANADA AS OUR LEADING MARKET FOLLOWED BY JAPAN, MEXICO, THE UNITED KINGDOM AND WEST GERMANY.

*IMPORTS - CONSISTED OF 80% MANUFACTURED GOODS, 10% MINERAL FUEL AND 10% AGRICULTURAL COMMODITIES.

*IMPORTS - LED BY JAPAN AS THE MAJOR SUPPLIER FOLLOWED BY CANADA, WEST GERMANY, MEXICO, TAIWAN AND THE UNITED KINGDOM.

*IMPORTS - SERVICES AMOUNTED TO 1/5 OF THE PRODUCT VOLUME ($45MM).

IN TODAY'S NEW WORLD ECONOMY, THE KEY TO ECONOMIC GROWTH AND FUTURE PROSPERITY LIES IN OUR ABILITY TO BE ECONOMICALLY COMPETITIVE DOMESTICALLY AND MORE IMPORTANT - INTERNATIONALLY!

THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE (AHCC) IS UNIQUELY SUITED TO HELP NEW MEXICO BUSINESSES TAKE MAXIMUM ADVANTAGE OF EXISTING BUT AS OF YET UNEXPLOITED FOREIGN TRADE OPPORTUNITIES BETWEEN NEW MEXICO AND MEXICO IN A MUTUALLY BENEFICIAL INTERCHANGE.

Dealing in international trade poses some fundamental problems such as approaching the right contacts through proper channels and modifying the American business pace to that of the host country's. The AHCC's International Trade Committee is composed of a group of seasoned foreign traders with over 20 years of resident management abroad. This places the AHCC in a position to open doors, make appropriate introductions, explain the basic "how to" steps and hand-hold businesses through the rough initiation start-up phase with a minimum of time loss, frustrations, and cost.

For the past ten years the AHCC has committed itself to the development of strong relationships for the expansion of tourism, trade and economic development between New Mexico and Mexico.

Notwithstanding state shifts in priorities, administrations and directions the AHCC has maintained a continuous and growing commitment to build on its successful initiatives towards increased tourism and trade development with Mexican Chambers of Commerce, government officials, educators and business leaders.

The AHCC's International Trade Committee has undertaken a number of very positive initiatives towards increased tourism and trade with Mexico, and other Latin countries.

1. In December 1986 the AHCC hosted a Chamber of Commerce round table of business leaders and chamber members from Cuidad Juarez and Chihuahua.

2. In January 1987 the AHCC designated a trade mission to survey the Cuidad Juarez and Chihuahua business and industrial climate to establish concrete working relationships and set goals and objectives on which to initiate serious trade and tourism interchange.

3. In February 1987 the AHCC hosted a round table for delegates from Guadalajara, Mexico for which a New Mexico trade mission in pending.

4. In April 1987 preliminary trade mission letters were hand carried for the AHCC's International Trade Committee to the presidents of the Chiapas and Tabasco Chamber of Commerce.

5. In May 1987 the AHCC hosted a USIA round table for 12 Central and South American business delegates who came to explore New Mexico's export-import and co-investment opportunities.

6. In May 1987 the AHCC published its first rough draft "Opportunities Bulletin" for its membership on existing export-import and co-investment opportunities in Cuidad Juarez and Chihuahua.

7. In May 1987 the AHCC developed a research process to identify the export-import interests of businesses in New Mexico and Mexico.

8. Currently and routinely the AHCC is in constant communication with the Cuidad Juarez, Chihuahua and Guadalajara Chamber of Commerce to keep itself updated on current events.

DURING ITS DATA GATHERING PROCESS, THE AHCC'S INTERNATIONAL TRADE COMMITTEE HAS COME UPON A NUMBER OF SIGNIFICANT FINDINGS.

1. A MEXICAN IMPORT-EXPORT "WANTS LIST"
2. A LIST OF NEW MEXICO TWIN PLAN PARTICIPATING COMPANIES.
3. THAT CUIDAD JUAREZ ALONE IN 1986 IMPORTED $160 MILLION OF U.S. NON-MAQUILA GOODS IN THE FOLLOWING CATEGORIES:
   - A. BASIC FOODS - STAPLES.
   - B. SEMI-BASICS - FOODSTUFFS, TOOLS AND SPARES.
   - C. NON-ESSENTIALS - ELECTRICAL AND ELECTRONIC EQUIPMENT.
   - D. AUTOMOBILES - PER QUOTA DICTATES.
4. THAT OVER 700 U.S. CORPORATIONS ARE PRODUCING GOODS FOR U.S. MARKETS WITHIN A DAYS TRAVEL FROM NEW MEXICO'S BORDERS.
5. THAT THE MEXICANS DESIRE THE FOLLOWING:
   - A. TO COMPLIMENT AND NOT TO COMPETE WITH NEW MEXICO'S TRADE OBJECTIVES.
   - B. TO DIVERSIFY AWAY FROM THEIR DEPENDENCE ON A TEXAS CONNECTION.
   - C. TO TAKE ADVANTAGE OF MEXICO'S NEWLY ACQUIRED GATT STATUS.
   - D. TO DEVELOP MEXICAN INDUSTRY FOR INCREASED EXPORT TRADE.
   - E. TO FIND NEW MEXICO CO-INVESTORS FOR MEXICAN BUSINESS VENTURES.
6. THE MEXICAN THRUST IS TO:
   - A. BUY FROM AND SELL TO NEW MEXICO.
   - B. DEVELOP A "TOURISM CORRIDOR" BETWEEN MEXICO AND NEW MEXICO.
   - C. MODERNIZE BORDER CUSTOMS PROCEDURE TO FACILITATE THE EXPORT-IMPORT PROCESS.
   - D. PROMOTE THE MAQUILADORAS NATIONAL PRIORITY STATUS.
   - E. SEEK MARKETS BEYOND ITS BORDERS, PREFERABLE IN NEW MEXICO.
7. MUCH OF THE BUSINESS LEADERSHIP IN CUIDAD JUAREZ, CHIHUAHUA, CHIAPAS, GUADALAJARA AND TABASCO IS UNAWARE OF NEW MEXICO'S STAFF RESPONSIBILITY FOR INCREASING TOURISM AND TRADE BETWEEN MEXICO AND NEW MEXICO.

It is proposed that the State of New Mexico and federal agencies contract with the Albuquerque Hispano Chamber of Commerce's International Trade Committee to provide on-going leadership in order to place New Mexico in a posture to increase its tourism and trade interchange with the growing international business opportunities now resulting in Mexico.

Specifically the International Trade Committee would provide:

1. A centrally located international trade office at the AHCC for the consulting use of New Mexico businesses who wish to enter into or increase their export/import interchange with Mexico.

2. Research data on existing, new and developing opportunities to increase New Mexico's tourism, trade and co-investment in Mexico.

3. Centralized computer data to matching communities, businesses in New Mexico with growing economic opportunities in Mexico and to Mexican Chambers of Commerce.

4. A clearing house for New Mexico businesses and industry who desire to increase their trade, manufacturing or service business through-out Mexico.

5. Regular training sessions for New Mexico businesses and communities desiring to do business with Mexico.

6. Routine recommendations and directions for the state to position itself, its small businesses and communities to increase tourism and business opportunities in Mexico.

7. The development of those initiatives which the state may wish the International Trade Committee to undertake on a special project basis.

Through a concentrated focus on the existing and emerging Mexican market opportunities, New Mexico companies can increase their economic competitiveness and benefit the New Mexico economy. There is a genuine need for New Mexico to improve its foreign trade posture and to become proficient in the use of expanded international trade.

The AHCC can be very instrumental in positioning New Mexico small businesses to take advantage of Mexico's preferential desire to do business with New Mexico. To do so effectively, serious consideration must be given to the above proposal and its execution.

Thank you for the opportunity to share my views.

Senator BINGAMAN. Let me ask a couple of questions about your suggestion. I like your idea about Mexico diversifying away from the Texas connection.

Mr. CASTILLO. But Texas may not appreciate it very much.

Senator BINGAMAN. You indicated that the tourism corridor that you mentioned as a possibility appeals to some in Mexico as well. Could you elaborate as to what precisely you would have in mind there? What would be contemplated?

Mr. CASTILLO. There is a prospective tourism in New Mexico, for example, the Cooper Canyon situation, which is available to tourists from out of the United States, that could be linked in part, let's say, with doing a corridor structure with Roswell, if you will, or some of the ski areas here. I think the idea would be, number one, the Mexicans have areas of tourism to be visited. They do not or have not popularized them to the point where they are concurred and they would like to combine that, their tourism with our tourism to get help from us to better their touristic advertising, if you will, and make a package so that Mexicans would come to New Mexico and New Mexicans would go to Mexico. The Copper Canyon is just one prospect. I think there are others as well.

Senator BINGAMAN. I assume that the dropoff in the value of the peso resulted in a dramatic decrease in Mexican tourism into this country. Is that accurate?

Mr. CASTILLO. I believe so. We do have a gentleman here from Chihuahua who I think is more involved in the touristic part. We might call upon him, perhaps. Daniel, can you deal with that a little bit, or Carlos?

Senator BINGAMAN. Come ahead, come on up and have a chair if you like. The question I had was the extent of the Mexican tourism to this country since the decline in value of the peso. I assume that the decline in the value of the peso has drastically interfered with Mexican tourism in this country. Is that accurate?

Mr. CASTANEDA. Yes, sir, it does and I guess Mexico is trying to get more opportunities for the people in the southern part of Mexico. We want to get tourism to the whole country and basically the new problems have made the people from Mexico not want to come to the United States, to some extent.

Senator BINGAMAN. You would not expect that to change in the near future. Do you see anything that would provide hope that there would be a significant increase in Mexican tourism in the United States in the near future, given the continuing devaluation of the peso?

Mr. CASTANEDA. It all depends on the new services or exchange that we have with the United States and when the economy is better and it all depends on the implications that we have from our trade with the United States.

Senator BINGAMAN. OK. Let me ask, Mr. Castillo, on the work that you would anticipate the Hispano Chamber's Trade Committee could do most effectively? The interchange with chambers in Mexico, that has been something of a one-time arrangement up until now, as I understand it.

Mr. CASTILLO. Until about January of this year, yes, sir.

Senator BINGAMAN. But at this point, you are trying to develop continuing interaction with various of those chambers throughout the country?

Mr. CASTILLO. Yes, sir.

Senator BINGAMAN. Are you aware of other chambers of commerce in the United States who are also pursuing those same kinds of contacts?

Mr. CASTILLO. I personally am not. There may be some others. There are some other entities that are doing some work, but it is not, let's say, all put together in one centralized location, to my knowledge.

Senator BINGAMAN. Henry, did you have a comment?

Mr. CASSO. Yes.

Senator BINGAMAN. This is Henry Casso.

Mr. CASSO. I think significant to what is going on right now is that the Albuquerque Hispano Chamber of Commerce was the only chamber that was represented in Chihauhau's 100th celebration in May, at which there were over 300 chambers from all of Mexico, and I think a commitment by the international committee and a recommendation to the full chamber is that we link up with that annual event of the coming together of those 300 chambers. That piece needs to be worked out, but it was very significant one, that it was invited and number two, that it participated with 300 chambers throughout Mexico.

Senator BINGAMAN. All right, thank you. Yes, Lisa.

Ms. MCDOWELL. I have to get up and respond to that question as vice president of the U.S. Hispanic Chamber of Commerce. There is a lot of activity going on right now between the U.S. Hispanic Chamber of Commerce and many chambers in Mexico, and also the Small Business Administration. I believe I gave your office an announcement or some work process that's going on in the border from Laredo up to New Mexico, because I believe in Arizona, SBA, a different region picks up the remaining border. But there is a tremendous amount of work going on and, unfortunately, just like the agreement that you are working on right now, that does take a lot of time and a lot of processing to work, you know, the schematics out, but it's making a lot of progress. I had to say that, because the U.S. Hispano Chamber of Commerce is also involved.

Senator BINGAMAN. Well, thank you very much. Let me—yes, Roberto.

Mr. CASTILLO. There was some commentary made by some of the speakers relative to Mexico being self-satisfied with the national commerce. And this was relatively so up to 1982 when they suffered an economic crises. However, I think that parallels in a sense with New Mexico that we may be a little self-satisfied with our national commerce here and as far as a chamber situation or some entity, there is a need for information gathering to centralize that information, if you will, to matchmake, to get the mystic out of foreign trade, the fears of governments, foreign or otherwise, the fears of devaluation and the like, as regarding the answer to the question as what type of a role could be played.

Senator BINGAMAN. Let me ask a different question. One of the things we've struggled with in Washington is the question of whether the Federal Government does what it should be doing to collect and disseminate trade data which is useful to business persons in this country who might want to export into Mexico or any foreign country. Particularly, to what extent do we collect trade data which is on a State-by-State basis. I'd be interested in Salvador or Roberto or any of you commenting on whether you think the Federal Government is doing what it should do or producing useful information, or whether you think there is a major deficiency there.

Mr. CASTILLO. In my opinion, there is a major deficiency. There is a general collection of data, but we are not getting down to the specifics on let's say taking a small business person with that data and making the match that he should have in order to lose his fear of going into foreign trade.

Senator BINGAMAN. Salvador, do you have any comments on that?

Mr. GONZALEZ BARNEY. Well, I think that it's mostly done on city to city. For example, El Paso is very active with Juarez or El Paso and Chihuahua, Las Cruces and Juarez, this way you can have more interchange of information. There is plenty of aid in El Paso.

Senator BINGAMAN. So you think it's more practical to have it done on city-by-city basis and not try to rely upon the Federal Government to collect and assimilate the data?

Mr. GONZALEZ BARNEY. Not necessarily, but if I wanted to get information on Laredo or Nuevo Leon in Mexico, I could go there and they have everything on Nuevo Leon.

Mr. CASSO. As part of this committee, one of the most awesome challenges that we've had in volunteers is getting data, and I would suggest that if we're doing it on a city-by-city basis, that it does not provide the substantive in-place arena if you're going to develop a country or a State-by-State strategy. And to answer very bluntly the question, is the Federal Government doing sufficiently, I would say categorically, no. Is it doing sufficiently for small business, I would say categorically, no. I would suggest as doing it for States with volunteer business people, I would say, no. Is it needed, absolutely, yes. What could be done, get the United States to turn its face to the south and start dealing with the hemisphere to the back of us.

Senator BINGAMAN. Let me ask one or two more questions and then at that point, we'll terminate the formal hearing. We do have some indications that there are some here who have statements they want to present. I should say to the audience that we will take written comments or statements from anybody to include in the record. In addition, of course, we'll give you a chance to state your position here publically before we end this.

One of the questions that came up yesterday, and that I would be interested in getting you folks here to comment on, is to what extend you believe the Mexican Government has, in practice, changed its procedures to encourage the sale of U.S. products in Mexico. One example of difficulty that we discussed yesterday at the hearing in Las Cruces is that the way the maquila program is established. Theoretically, products made in maquila plants can be sold in Mexico, but in practice they can't. I'd be interested in knowing if that's typical or if there is a very serious difficulty of U.S. firms selling manufactured or other products in Mexico.

Mr. Gonzalez Barney. I'd like to comment on that. The presidential decree on that reads that a maquiladora may sell in the Mexican market, provided the following regulations are followed and I'm paraphrasing now, if the product is going to be sold, or is wanted to be sold in Mexico, it's already manufactured in Mexico, the maquiladora must be able to sell it at the same price or lower, I mean, same price or higher, he cannot go and say, OK, the widget is being sold for a dollar, they cannot go in there and sell it for 75 cents. If it's going to compete with a sector of the market that Mexico doesn't consider is fair, then a permit has to be acquired for that and the volume of how many they are going to sell.

If the product is not at all manufactured in Mexico, then there's no problems. But the statement from the Presidential decree says a company may, period. That is why it's very difficult. If I want to sell an air conditioning unit in Mexico, and they are already being sold and manufactured in Mexico, and I am going to be competing with a Mexican manufacturer, then my product has to, cannot be at a lesser price than his, and I can only sell 20 percent of my production based on the amount of money that has generated within Mexico, because of my firm. So granted, yes, it's very difficult to do that, it's very difficult to sell——

Senator Bingaman. I guess my question is, we heard from Mr. Herzstein that Mexico is moving quickly to open up its trade relations and its market, and I understand that that can't be done, perhaps, too quickly, but if we were to have a provision like the one you just described, that foreigners can sell in our market, can sell cars in our market, but they can't sell them any cheaper than we sell them or that foreigners could sell stereos in our market, but not any cheaper than we sell them, that would be considered the height of protectionism. I'm just wondering if we have a serious impediment in practice to U.S. firms in New Mexico or wherever, in manufacturing for sale in Mexico. Yes, please.

Mr. Arroyo. I'm Daniel Arroyo from the Small Business——

Senator Bingaman. Come on up Daniel, come up and be seated.

Mr. Arroyo. I'm Daniel Arroyo from the Small Business Chamber of Commerce in Juarez.

I would like to analyze that question a little bit further. I think this is a system that the Government is trying to put in effect. It cannot be just put from one day to the other, but this is not really, I imagine, the point. We have other problems, many times the same company that doesn't want to really compete with the company that they have already in Mexico, and we've had several products from the States that they have their own plants over there and they will not allow the similar product from the States to go over there, because they would affect their own plant in Mexico.

Senator Bingaman. I'm sure that's accurate, but there are companies who have maquila plants and do not want to sell their products in Mexico. What I am asking about is those that have maquila plants in Mexico and do want to sell their products in Mexico.

Mr. Arroyo. One of the bases that Mexico is trying to change is this protectionism. It's going to take some time to, in order to get rid of it, but mainly the thing would be also to have the same companies. Right now I was reminded about the problem with the computers. Many companies from the States will not accept to take the computers and go over there or sometimes they will allow—it's the Government that would not accept computers to go abroad. I mean there are different situations, not this particular weight of the Government to put in effect this position. We understand it's going to—it's trying to be worked out. It might take some time.

Senator BINGAMAN. In your view, will this framework agreement that Melissa and Mr. Herzstein discussed help to resolve this problem?

Mr. ARROYO. I imagine that is exactly it.

Senator BINGAMAN. That's one of the main purposes of that agreement.

Mr. ARROYO. We understand that this is the only way it could be solved, through one of those agreements.

Senator BINGAMAN. Well, I appreciate that very much. Let me go ahead and dismiss these panel members. Thank you all very much. The subcommittee stands adjourned.

[Whereupon, the subcommittee adjourned, subject to the call of the Chair.]

APPENDIX

TESTIMONY
BY
Dr. Henry J. Casso
President
The National Institute for Professional Development, Inc.
Albuquerque, New Mexico

Thank you for the opportunity to provide testimony at these hearings which are considering issues of direct concern to the National Institute for Professional Development, Inc., of which I am the president, and of critical importance to the future of our state, our relations with Mexico and countries in the southern hemisphere, and our nation's continued leadership in peaceful exploration of space.

My underlying interest, and that of the National Institute for Professional Development, Inc. is the development of human resources for a technological society in New Mexico and our country and the southern hemisphere. Throughout the testimony of these hearings in Las Cruces and Albuquerque we have heard of the importance of trade in relation to economic development. I firmly believe economic development in New Mexico, in the U.S. and the southern hemisphere cannot be accomplished without well prepared human resources for a high technological society.

In the audience with us today is Mr. Daniel Arroyo - of the Small Business Chamber and Mr. Carlos Castaneda - of the larger chamber, both in Juarez, Mexico.

Eight years ago they were among a delegation visiting the Albuquerque Hispano Chamber of Commerce with an interest in developing business and trade relations with Albuquerque and New Mexico.

In December of 1986, Mr. Arroyo and Mr. Castaneda were part of another visit to the Albuquerque Hispano Chamber of Commerce for the same purposes of their meeting eight years previous. Not wishing to wait another eight years before concrete gains would possibly occur, I offered five scholarships each for the City of Juarez and Chihuahua to identify, recommend and send promising high school students to participate in the PROJECT UPLIFT: High Technology Preparedness Youth Institute and Space/ Technology Career Exposition which my Institute holds each year. I asked that the students selected be recommended by the respective Chambers of Commerce, be young people who would return to their communities to share their new experiences and information and further, be ones who could become leaders of a new international border economic development agenda on earth and space.

I am very happy to report both communities sent four bright students and a school person. The principal of La Salle High School in Chihuahua who attended with four students observed ..."it will be ten years before the science and technology information we were exposed to will reach our communities, if even then."

Recently I visited that high school and was approached by a number of students who, as a result of the experiences of their collegues, expressed an interest in pursuing higher education in New Mexico.

New Mexico has created five centers of technical excellence in three of our degree granting universities - New Mexico State University, Las Cruces, (1) Plant Genetic Engineering Lab; (2) Artificial Intelligence; The University of New Mexico, Albuquerque, (3) High Technology Materials Institute, (4) Non-Invasive Investigation Center and (5) The Explosives Technology Center at New Mexico Institute of Mining and Technology, in Socorro.

These five centers, along with a number of advanced areas of study in our universities could be excellent areas of study to further that agenda addressed earlier, namely leaders of a new international border economic development on earth and space.

Dr. Gerald Thomas addressed these hearings in Las Cruces and pointed out the down trend of students from Mexico studying in New Mexico universities. I urge your support for the recommendations made by Dr. Thomas and also recommend that your committee examine the impact of funds from the Agency for International Development not being used in Mexico because of U.S. policy relating to OPEC countries. Work to have this policy removed.

If your committee accepts my premise of human resource development for international border economic development, then I believe legislative appropriations by the Congress would be most helpful to carry this forth. If the U.S. would spend just a small percentage of Department of Energy funds spent in Japan and Europe over the past 10 years, this would be a major effort.

During my visit to Chihuahua, I was made aware that Japanese expertise is coming into that city to help program the transfer of Maquila plants to robot manufacturing. It seems to me New Mexico and other border states, through its strong university programs, especially in such technical areas, could provide valuable services and training with short and long term implications for improved trade benefits on both sides of the border.

This was made very clear in our interaction with business and professional leadership from throughout Mexico. They want to do business with New Mexico because we share a common history, language and culture and have resources which could benefit them. Therefore the committee can aide, facilitate this increased business and professional interaction by removing any barriers to develop human technical resources for our new trade initiatives with the southern hemisphere, on earth and space, especially with Mexico.

Speaking of high technology and space, your Senate committee can urge national policy and program development to assist the preparedness of technological expertise in the developing countries of the southern hemisphere. These countries will purchase our technological goods and services, if they have the expertise to use, and service them.

On another subject, each day we read and hear of the international race in Space Exploration - The New Frontier. While the U.S. is the pioneer in space, the Russians, Japanese and French are aggresively catching up with the U.S. Russia and Japan are making very visible in-roads into Mexico, our neighbor to the south. I recommend Senator that the U.S. make a serious commitment to include Mexico and other southern hemisphere countries in our Space Agenda. Lets begin by helping them develop the human technical resource expertise for this new frontier.

New Mexico is well positioned to assist in prototyping such expertise development from which young professionals from both sides of the border can merge as hemispheric leaders in stronger economic development for both countries, on earth and space.

I and my Institute stand ready to assist this Committee, Congress and the Administration in developing such prototypes. Thank you.

Congressional Hearing

June 13, 1987

U.S. - MEXICO ECONOMIC RELATIONS
AND
THEIR EFFECT ON THE NEW MEXICO ECONOMY

Testimony by

Elisa McDowell
Vice President
United States Hispanic Chamber of Commerce
1933 Coors SW
Albuquerque, New Mexico

I HAVE THREE DIFFERENT KINDS OF QUESTIONS THAT I WOULD LIKE TO ASK IF I MAY. I WOULD LIKE TO FIRST ASK WHO ARE THE MEMBERS ON THE COMMITTEE THAT IS FORMULATING AN AGREEMENT WITH MEXICO, AND IN PARTICULAR, DO WE HAVE ANY HISPANICS? SENATOR, IT IS VERY, VERY IMPORTANT THAT WE HAVE PEOPLE LIKE HECTOR BARRETO, THE PRESIDENT OF THE U.S. HISPANIC CHAMBER OF COMMERCE, WHO HAS EXCELLENT WORKING RELATIONSHIP WITH THE BUSINESS COMMUNITY AND CHAMBER PEOPLE IN MEXICO, AS PARTICIPATING MEMBERS ON THE COMMITTEE THAT IS FORMULATING AN AGREEMENT WITH MEXICO. WE NEED TO BE SENSITIVE TO THOSE PARTICULAR ISSUES.

ON ANOTHER ISSUE, PLEASE REFER TO DR. RONALD LOHRDING'S STATEMENT ON PAGE 25. HIS STATEMENT STATES THE FACT THAT THE NATIONAL LABORATORIES, UNIVERSITIES AND THE PRIVATE SECTOR OF NEW MEXICO AND PERHAPS OTHER BORDER STATES WOULD BE THE MAIN U.S. PARTICIPANTS BECAUSE OF OUR STRONG SCIENTIFIC RESOURCES, OUR PROXIMITY TO LATIN AMERICA AND OUR SPANISH LANGUAGE CAPABILITY. I WOULD LIKE TO MAKE A VERY, VERY STRONG EMPHASIS ON THE WORDS "OUR SPANISH CAPABILITY", TO REINFORCE THE BILINGUAL ASSET ASPECT OF BILINGUALISM VERSUS THE ENGLISH ONLY CONCEPT BEING PROMOTED BY A FEW. I AM GOING TO REQUEST THAT THE USHCC START WORKING WITH THE VARIOUS CHAMBERS INCLUDING THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE TO ENLARGE THE NUMBER OF FOREIGN STUDENTS FROM MEXICO COMING INTO THE U.S. FOR HIGH TECH TRAINING. THE WORLD OF TECHNOLOGY TO BOTH THE HISPANIC COMMUNITY IN THE U.S.A., BUT ALSO IN MEXICO IS IMPORTANT TO US TODAY AND WILL BE DOUBLY IMPORTANT IN THE FUTURE.

JOE ZANETTI MENTIONED A PARTNERSHIP AND SOME KIND OF AN AGENCY ON INTERSTATE COMMERCE. MOST OF US IN THIS ROOM OR MANY OF US IN THIS ROOM DO NOT KNOW WHO COMPRISES THIS PARTNERSHIP OR WHAT THIS PARTNERSHIP'S ROLE IS IN OUR COMMUNITY. AGAIN IF WE ARE GOING TO MAKE INTERNATIONAL TRADE SUCCESSFUL, WE ALL HAVE TO BE IN, NOT JUST A SELECTED FEW.

YOU ASKED ABOUT WHAT OUR FEDERAL GOVERNMENT IS DOING TO PROVIDE US WITH THE INFORMATION. IT IS AVAILABLE, BUT TRY TO GET IT WITHOUT HAVING TO GO TO ALL THESE FOREIGN COUNTRIES TO DETERMINE BUSINESS OPPORTUNITIES. THE PROBLEM IS THAT MANY BUSINESSMEN HAVE ONLY SO MANY DOLLARS TO INVEST. IF THIS INFORMATION WERE MORE READILY AVAILABLE FOR DISSEMINATION TO INTERESTED PARTIES AND INTERESTED NATIONS MORE WINDOWS AND OPPORTUNITIES WOULD BE AVAILABLE FOR MANY VERSUS A FEW.

WE APPARENTLY NEED A LOT OF ASSISTANCE AFTER WHAT WE HEARD HERE TODAY SENATOR, REGARDING OUR FOREIGN TRADE ZONE. IT IS OKAY TO PAT OURSELVES ON THE SHOULDER AND PRAY THAT WE TRADE ZONE, BUT IF WE HAVE ONE THAT ISN'T SERVICING THE CUSTOMER PROPERLY, WE ARE NOT ACCOMPLISHING ANYTHING. WE HOPE YOU CAN GIVE US SOME INPUT AS TO HOW WE CAN INCREASE THE BENEFIT OF OUR PARTICULAR FOREIGN TRADE ZONE HERE IN NEW MEXICO IN ORDER TO MAKE IT WORK FOR US.

WE TALKED ABOUT PROTECTIONISM, ARE WE USING PROTECTIONISM AS A LABEL? INTERNATIONAL TRADE IS TRADING FOR THOSE THINGS THAT YOU ARE SHORT OF IN YOUR OWN COUNTRY, AS AN EXAMPLE, YOU USED THE AGRICULTURAL WORLD AND HOW AT ONE POINT THE U.S.A. REALIZED THAT WE WOULD NOT BE ABLE TO FEED EVERYONE IN THE WORLD SO WE SHOWED COUNTRIES HOW TO FEED THEIR OWN PEOPLE, NOT COMPETE WITH US. WHY DO WE HAVE SUCH AN OPEN POLICY ON INTERNATIONAL TRADE TODAY? WHY DOESN'T IT COME BACK TO NEED AN SUPPLY, WHY DON'T WE EXERT OUR ENERGY AND EFFORTS IN FINDING OUT WHAT PRODUCTS IN MEXICO, U.S.A. AND JAPAN HAVE AN EXCESS OF AND THEN WE WILL FIND MARKETS FOR THEM, NOT COMPETITION TO DESTROY OUR PLANTS AND FACTORIES, OUR WORKERS AND FAMILIES.

LASTLY, WE HAVE TO BE CAREFUL WITH THE MAQUILA INDUSTRY. WHILE THIS SYSTEM HAS BENEFITED MEXICO, I DON'T BELIEVE THAT WE SHOULD DO IT AT THE EXPENSE OF THE U.S.A. BUSINESS OWNER, WORKER AND FAMILY. WE HAVE TO BE VERY COGNIZANT OF THAT FACT. IF THAT IS PROTECTIONISM, THEN WE BETTER BE PROTECTIONALISTS. AS WE GO INTO MEXICO TO EXPLORE GREATER TRADE OPPORTUNITIES WITH NEED AND SUPPLY AS OUR GUIDES, LET US ALSO HELP THE MEXICAN WORKER BY HIRING THEM PROPERLY AND PAYING THEM A LIVABLE VERSUS AN EXISTENCE ONLY WAGE. LET'S ATTEMPT TO BRING THEM CLOSE TO THEIR U.S.A. COUNTERPART AND ALLEVIATE THE PRESENT DAMAGING ECONOMY AND IMMIGRATIONS PROBLEMS. THANK YOU.

Congressional Hearing

June [illegible], 1987

U.S. - MEXICO ECONOMIC RELATIONS AND THEIR EFFECT ON THE NEW MEXICO ECONOMY

Testimony by

Min Lee
Chinese Chamber of Commerce
10900 Mahlon Ave., NE
Albuquerque, New Mexico

I WOULD LIKE TO MAKE THIS VERY BRIEF. ABOUT WHAT I CAN CONTRIBUTE TO THE STATE OF NEW MEXICO, 2 THINGS. I RECENTLY CAME BACK FROM SEOUL, KOREA AND TAIWAN, HONG KONG AND MAIHLAND, CHINA AND WE ALL KNOW, IS A VERY BIG MARKET BUT IS THE MOST DIFFICULT AREA TO DO BUSINESS. BUT PERSONALLY, I FOUND OUT SOME ITEMS THAT CAN PAY US DOLLARS AND ALSO URGENTLY NEEDED. FOR THE KOREAN SIDE, IN BEIJING SAID THEY HAVE NEVER SOLD TO NEW MEXICO AND THEY INVITED US TO JOIN THEIR PRODUCTION SHOW IN SEPTEMBER. I HAVE SOME APPLICATIONS WITH ME. THERE ARE ALOT OF OPPORTUNITIES OF DOING BUSINESS WITH ORIENTALS. IF ANY BUSINESSMAN IN THE STATE, ESPECIALLY THE HISPANO CHAMBER OF COMMERCE THAT ARE INTERESTED, PLEASE LET ME KNOW. AND THE LAST THING I WOULD LIKE TO SPEAK ABOUT IS THE MAQUILADORA. I STARTED WORKING ON THIS PROJECT SINCE SEPTEMBER. I WAS THE ONE WHO WENT AND GAVE THE PRESENTATION IN TAIWAN TO THE PEOPLE OF TAIWAN. I SPENT A LOT OF TIME ANSWERING QUESTIONS AS TO WHAT IS THE DIFFERENCE BETWEEN MEXICO AND NEW MEXICO, SO THERE IS A LOT OF CONFUSION. AFTER SIX TO EIGHT MONTHS, I'VE GOTTEN SOME RESULTS. A CONTRACT WAS SIGNED AND WITHIN ONE YEAR MANUFACTURING WILL START. THERE ARE 2 OR 3 SHOE COMPANIES THAT WILL BE IN NEW MEXICO IN JUNE OR JULY.

MOST IMPORTANTLY, THE TAIWAN GOVERNMENT IS VERY, VERY INTERESTED IN THE PLANT "MAQUILADORAS" BETWEEN U.S. AND MEXICO. THERE WILL BE A BIG DELEGATION OF WHICH ALL THE MEMBERS ARE FROM THE LAST BIG ENTERPRISE CONTROLLED BY THE GOVERNMENT VISITING IN NEW MEXICO IN SEPTEMBER, ACTUALLY IN ONE WEEK THERE IS A SMALL DELEGATION THAT WILL VISIT TEXAS AND ARIZONA BUT NOT NEW MEXICO.

TAIWAN AND MEXICO DO NOT HAVE A DIPLOMATIC RELATIONSHIP SO IT IS VERY, VERY, HARD FOR TAIWANESE TO GET VISAS TO GO TO MEXICO. I HAVE BEEN TRAVELING IN JUAREZ, COLUMBUS AND PALOMAS MANY, MANY TIMES - THERE ARE MANY JAPANESE AND KOREAN FIRMS IN THESE AREAS, BUT NO TAIWANESE FIRMS. IF WE CAN GET SOME ASSISTANCE FROM MEXICO FOR THE VISA PERMITS, THERE WOULD BE MORE OPPORTUNITY FOR TAIWANESE FIRMS IN THIS AREA.

THANK YOU.

Congressional Hearing

June 13, 1987

U.S. - MEXICO ECONOMIC RELATIONS
AND
THEIR EFFECT ON THE NEW MEXICO ECONOMY

Testimony by

Daniel Yu
Chinese Chamber of Commerce
6233 Montgomery NE
Albuquerque, New Mexico

THANK YOU SENATOR FOR GIVING ME THE CHANCE TO HAVE A FEW WORDS HERE. DURING THE LAST 10 YEARS, I HAVE BEEN RECRUITING AND SYNDICATING FOR INVESTMENT IN THE UNITED STATES. I ALSO HAVE EXTENSIVE INTERNATIONAL TRADE CONTACTS AND EXPERIENCE AND I HAVE A FEW COMMENTS I WOULD LIKE TO MAKE:

1) IN ORDER TO BALANCE THE INTERNATIONAL TRADING DEFICIT, THE DOLLAR DEVALUATION AGAINST FOREIGN CURRENCY IS NOT THE ONLY SOLUTION TO THE PROBLEM. I THINK THE UNITED STATES CORPORATIONS SHOULD ALSO BE VERY AGGRESSIVE IN THE INTERNATIONAL MARKET. FOR INSTANCE, DURING THE PAST 6 OR 8 MONTHS, THE DOLLAR DEVALUED APPROXIMATELY 24 PERCENT AGAINST THE TAIWANESE DOLLAR. THE U.S. DOLLAR ALSO ASKED THE REPUBLIC OF CHINA TO OPEN THE DOOR TO LOWER THEIR TARIFF AND DUTY AND THEY DID. BUT THE IMMEDIATELY BENEFITED COUNTRIES IS JAPAN NOT THE UNITED STATES, SINCE THEY OPENED THE DOOR, THEY SHORTED INTEREST POINTS - THEY LIKE THE NABISCO CORPORATION AND GENERAL FOODS CORPORATION. I TALKED WITH THOSE CORPORATIONS AND THEY INDICATED THEIR PRODUCTIONS CAN ONLY COVER DOMESTIC - CANNOT HANDLE INTERNATIONAL MARKETS. THIS A PROBLEM THAT THE U.S. HAS TO LOOK INTO.

I PERSONALLY BELIEVE THAT ALL FACTS AND RESOURCES IN THE STATE OF NEW MEXICO CENTER ON OUR INEXPENSIVE LAND AND LABOR SO WE SHOULD EMPHASIZE AND PUSH MAQUILA OPERATIONS.

THE LAST THING, THERE ARE SEVERAL PERSONS MAKING THE SAME INFORMATIVE POINTS. I SERVED ON THE STATE INTERNATIONAL TRADE COMMITTEE, I KNOW THE MEMBERS OF THE COMMITTEE ARE APPOINTED BY THE GOVERNOR, BUT IT IS AN UNPAID POSITION. ANYHOW, THEY SHOULD OPEN THE DOOR TO THOSE PEOPLE WHO ARE INTERESTED AND HAVE POTENTIAL CONTRIBUTIONS TO THIS INTERNATIONAL TRADE COMMITTEE AND BRING MORE MONEY AND JOB OPPORTUNITIES TO THE STATE OF NEW MEXICO, I THINK THAT EVERYONE WILL BENEFIT.

THANK YOU VERY MUCH.

DATE: JUNE 23, 1987

TO: JEFF BINGAMAN, UNITED STATES SENATOR
JOINT COMMITTEE OF THE U.S. CONGRESS
U.S. - MEXICO TRADE RELATIONS

FROM: ROD WALLER, DIRECTOR/SENIOR CONSULTANT
INTERNATIONAL MARKETING & DEVELOPMENT COMPANY
OF NEW MEXICO
8200 OTERO, NE
ALBUQUERQUE, NM 87109
(505) 821-2318

SUBJ: WRITTEN TESTIMONY GIVEN AT THE TRADE HEARING
U.S. - MEXICO TRADE RELATIONS, JUNE 13, 1987 IN
ALBUQUERQUE, NEW MEXICO.

MY NAME IS ROD WALLER, DIRECTOR OF MY OWN DEVELOPMENT AND MARKETING COMPANY, THE INTERNATIONAL MARKETING AND DEVELOPMENT COMPANY OF NEW MEXICO. I AM ALSO A MEMBER OF THE INTERNATIONAL TRADE COMMITTEE OF THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE. IN ADDITION, I AM THE CURRENT PRESIDENT OF THE NEW MEXICO PARTNERS OF THE AMERICAS WHICH HAS ACTIVE CULTURAL, SOCIAL AND PROFESSIONAL DEVELOPMENT PROGRAM WITH THE STATES OF TABASCO, CHIAPAS AND MICHOACAN, MEXICO. I AM ALSO A MEMBER OF THE ALBUQUERQUE SISTER CITIES AS CHAIRMAN OF THE ECONOMIC COMMITTEE. I HAVE JUST A FEW POINTS I WOULD LIKE TO PLACE ON THE RECORD FOR THE CONSIDERATION OF THE U.S. CONGRESS AND FOR YOU, SENATOR. THESE POINTS ARE AS FOLLOWS:

1. IT IS IMPORTANCE TO CONTINUE CONTACT TO DEVELOP A POSITIVE INTER-PERSONAL AND BUSINESS COMMUNITY RELATIONSHIP WITH YOU AND THE CONGRESS. THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE HAS BEGUN THIS PROCESS AS HAS BEEN PRESENTED HERE TODAY. LET US KEEP IT GOING.

2. WE NEED TO WORK TOGETHER TO FIND RESOURCES TO SUPPORT THE INTERNATIONAL AND ECONOMIC DEVELOPMENT ACTIVITIES OF THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE. THEY NEED DEVELOPMENT RESOURCES. THERE IS A NEED TO MAKE THIS A PRIORITY IN THE FEDERAL GOVERNMENT'S INTERNATIONAL BUSINESS DEVELOPMENT GOALS AND WE NEED DEVELOPMENT GRANTS TO ENCOURAGE AND SUPPORT LOCAL EFFORTS.

3. TECHNICAL ASSISTANCE AND PROFESSIONAL TRAINING BETWEEN NEW MEXICO AND MEXICO IS LARGELY DONE THROUGH PRIVATE VOLUNTARY ORGANIZATIONS WITH LIMITED RESOURCES, SUCH AS PARTNERS OF THE AMERICAS AND SISTER CITIES. MORE EMPHASIS IS NEEDED TO SUPPORT PROGRAMS THAT FOSTER CULTURAL, SOCIAL, PROFESSIONAL AND ECONOMIC PROGRAMS AND DEVELOPMENT PROJECTS. UNIVERSITIES ARE ALSO INVOLVED IN SUCH PROGRAMS, HOWEVER, FUNDING FOR EDUCATIONAL TRAINING AND EXCHANGE, ESPECIALLY WITH MEXICO, HAVE BEEN CUT.

4. CURRENTLY THERE IS MUCH TALENT IN NEW MEXICO IN THE AREA OF TECHNOLOGICAL DEVELOPMENT AND A POOL OF CONSULTANTS AVAILABLE TO DO CONSULTANT WORK IN MEXICO AND LATIN AMERICA OR IN OTHER THIRD WORLD COUNTRIES. MOST CONTRACTORS THAT ARE CURRENTLY USED BY THE AGENCY FOR INTERNATIONAL DEVELOPMENT ARE CLUSTERED IN WASHINGTON, D.C. AND ON THE EAST COAST. A QUICK SURVEY OF 89 PREFERRED CONTRACTOR REVELED THAT 87 PERCENT FROM EAST OF THE MISSISSIPPI RIVER AND ONLY 9 PERCENT TO THE WEST. (2 PERCENT INCLUDE PUERTO RICO) OF THE 89, ONLY ONE IS CLOSE TO NEW MEXICO AND THAT IS IN ARIZONA.

THERE ARE NO CONTRACTORS OUR OF THE 89 FROM NEW MEXICO (INDEFINITE QUANTITY CONTRACTS). I WOULD LIKE TO SEE AN EFFORT WITHIN A.I.D. AND OTHER AGENCIES IN THE U.S. GOVERNMENT WHO CONDUCT OVERSEAS DEVELOPMENT TO DIRECT A PERCENTAGE OF THEIR CONTRACT TO STATES LIKE NEW MEXICO. THIS SHOULD INCLUDE ACTIVE RECRUITMENT OF CONSULTANT.

5. FINALLY, I BELIEVE THAT MORE PROMOTION NATIONALLY IS NEEDED TO EDUCATE THE U.S. POPULATION ABOUT THE IMPORTANCE OF WORKING CLOSER WITH OUR NEIGHBORS IN THE WESTERN HEMISPHERE, ESPECIALLY WITH MEXICO. FURTHERMORE, THERE IS A NEED TO SUPPORT ONGOING EDUCATION AND TRAINING PROGRAMS INVOLVING MEXICO AND THE U.S. INCLUDING LANGUAGE. WE NEED TO SUPPORT AND ENCOURAGE STUDY AND LEARNING OF SPANISH IN THE U.S. AND ENGLISH IN MEXICO AS COMMUNICATION IS ESSENTIAL FOR LONG-TERM UNDERSTANDING AND COMMERCE DEVELOPMENT.

THANK YOU FOR THIS OPPORTUNITY TO ADDRESS THIS HEARING.

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Congressional Hearing

June 13, 1987

U.S. - MEXICO ECONOMIC RELATIONS
AND
THEIR EFFECT ON THE NEW MEXICO ECONOMY

Testimony by

Patricia Chavez
Chairperson
Albuquerque Hispano Chamber of Commerce
Convention & Tourism Committee
1001 Tramway NE
275-1570
Albuquerque, New Mexico

HELLO, MY NAME IS PATRICIA CHAVEZ AND I AM SERVING AS THE CHAIRPERSON FOR THE CONVENTION AND TOURISM DEPARTMENT WITH THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE.

THE EFFORTS OF THE ALBUQUERQUE HISPANO CHAMBER OF COMMERCE IN THE LAST YEAR HAS INCLUDED AN AGGRESSIVE STRATEGIC PLAN: IT INCLUDES BUT IS NOT LIMITED TO AREAS OF INTERNATIONAL TRADE DEVELOPMENT, ECONOMIC DEVELOPMENT AND EMPHASIS ON TOURISM AND CONVENTION AND OTHER AREAS. ROBERTO CASTILLO REFERRED TO NUMEROUS INITIATIVES OCCURRING IN INTERNATIONAL TRADE DEVELOPMENT.

I WOULD LIKE TO SUPPLEMENT ROBERTO'S TESTIMONY BY SHARING THAT UNDER THE TOURISM & CONVENTION COMMITTEE, OUR PLAN OF ACTION IS TO CARRY OUT AN AGGRESSIVE PROGRAM TO BROADEN MARKETING FOR TOURISM & CONVENTIONS PARTICULARLY WITH MEXICO.

IN ADDITION TO THE ACTIVITIES IDENTIFIED BY ROBERTO, WHICH FOCUSED ON TOURISM FAMILIARIZATION TRIPS FOR GROUPS FROM JUAREZ, CHIHUAHUA, GUADALAJARA, ETC. BY THE HISPANO CHAMBER. THE CONVENTION AND TOURISM PROGRAM HAS ALSO PARTICIPATED ALONG WITH THE NEW MEXICO STATE DEPARTMENT OF ECONOMIC & TOURISM DEVELOPMENT IN RECENT EXPO VACACIONES CONVENTIONS. T & C PLANS TO CONTINUE THIS COOPERATIVE EFFORT ALONG WITH IMPLEMENTING OTHER T & C ACTIVITIES LIKE: DEVELOPMENT OF A BILINGUAL BROCHURE TO BE USED ON FAM TRIPS IN MEXICO. DEVELOPMENT OF BILINGUAL VIDEO TO CONTINUE TO ENHANCE T & C. DEVELOPMENT OF CONTINUED ACTIVITIES WITH TOURISM DEPARTMENTS IN MEXICO I.E., AHCC'S INVOLVEMENT IN CHIHUAHUA'S 100 YEAR ANNIVERSARY CELEBRATION AND TO CONTINUE COOPERATIVE ADVERTISING/MARKETING EFFORTS WITH STATE DEPARTMENT OF ECONOMIC DEVELOPMENT & TOURISM.

SUMMARY, THE AHCC'S T & C DEPARTMENT WILL COORDINATE AND PLAN A PROGRESSIVE PROGRAM IN 1988 AND IN THE FUTURE, AND WILL BUILD ON A STRONG FOUNDATION TO PROMOTE TOURISM AND CONVENTION WITHIN MEXICO AND OTHER CENTRAL AMERICAN COUNTRIES.

THANK YOU FOR THE OPPORTUNITY TO ADDRESS THE CONGRESSIONAL HEARING ON U.S. - MEXICO ECONOMIC RELATIONS AND THEIR EFFECT ON THE NEW MEXICO ECONOMY. YOUR ATTENTION IS APPRECIATED.

Congressional Hearing

June 13, 1987

U.S. - MEXICO ECONOMIC RELATIONS AND THEIR EFFECT ON THE NEW MEXICO ECONOMY

Testimony by

Carlos Castenada

Juarez Chamber of Commerce
Juarez, Mexico

WE HAD 500 SMALL AMERICAN BUSINESSES THAT SOLD TO MAQUILA PLANTS IN JUAREZ IN THE LAST 15 YEARS. WE BUY FROM COMPANIES IN EL PASO, DALLAS, NEW YORK OR ANYWHERE IN THE UNITED STATES. WE ARE TRYING TO BUY FROM NEW MEXICAN COMPANIES RIGHT NOW. WE NEED TO IMPORT AND EXPORT WITH THE UNITED STATES. ROBERTO CASTILLO JUST MENTIONED THAT OF 160 MILLION DOLLARS IN GOODS WERE IMPORTED BY THE JUAREZ AREA LAST YEAR. THIS MONEY IS JUST FOR GOODS WE IMPORTED THROUGH THE CHAMBER OF COMMERCE, THIS IS NOT MAQUILA RAW MATERIALS OR INDUSTRIAL PRODUCTS. THE 160 MILLION DOLLARS THAT WERE SOLD BY BUSINESSES IN THE U.S. TO CIUDAD JUAREZ IS GOING TO INCREASE TO 230 MILLION DOLLARS IN GOODS AND SERVICES THAT WILL BE BROUGHT FROM THE UNITED STATES IN 1987.

WE ARE ALSO INTERESTED IN TOURISM, WE WANT NEW MEXICANS TO COME TO THE STATE OF CHIHUAHUA AND THE COUNTRY OF MEXICO. WE HAVE OPENED A NEW COPPER CANYON EXPRESS WHICH TRAVELS THROUGH CHIHUAHUA AND THE PACIFIC COAST, AND WE ARE GOING TO OPEN UP A RAILROAD THAT GOES FROM JUAREZ TO CHIHUAHUA. THERE ARE MANY PLANTS AND HOTELS OPENING IN CHIHUAHUA. THIS IS NOT ONLY IN THE INTEREST OF THE U.S. BUT ALSO MEXICO. WE HAVE TRAVELED TO MANY NATIONS THIS YEAR AND I FEEL THAT ALL THESE COUNTRIES ARE TRYING TO HAVE BETTER ECONOMIC, TOURISM AND INDUSTRY RELATIONS WITH THE U.S. WE ARE VERY INTERESTED IN NEW MEXICO BECAUSE OF OUR PROXIMITY TO NEW MEXICO AND WE HAVE THE TRANSPORTATION AND TIME TO BE IN NEW MEXICO AS OFTEN AS WE LIKE. THANK YOU.

Congressional Hearing

June 13, 1987

U.S. - MEXICO ECONOMIC RELATIONS
AND
THEIR EFFECT ON THE NEW MEXICO ECONOMY

Testimony by

Daniel Arroyo
Juarez, Mexico

FIRST I WOULD LIKE TO THANK YOU FOR THE INVITATION TO APPEAR BEFORE THIS TABLE. I AM FROM THE SMALL BUSINESS CHAMBER OF COMMERCE IN JUAREZ. WE ARE INTERESTED IN INCREASING THE TRADE BETWEEN THE MEMBERS OF OUR GROUP AND THE PEOPLE OF NEW MEXICO. THE VERY SPECIAL BOND BETWEEN THE STATES OF CHIHUAHUA AND NEW MEXICO IS OVER 100 MILES OF SHARED FRONTIER LAND. THE MEMBERS OF OUR CHAMBER OF COMMERCE ARE INTERESTED IN DEALING DIRECTLY WITH THE NEW MEXICO BUSINESSMAN - THIS WILL BE BENEFICIAL FOR BOTH PARTIES. THE TRADING MARKET BETWEEN OUR TOW STATES IS VERY IMPORTANT. THE JUAREZ AREA LOCAL, INDUSTRIAL AND MAQUILADORA COMPANIES, WHICH STARTED AS A SEVERAL MILLION DOLLAR IMPORT MARKET HAS INCREASED TO OVER $200,000,000 THIS YEAR.

THE MEMBERS OF OUR LOCAL CHAMBER OF COMMERCE OF JUAREZ ARE INTERESTED IN INVESTING IN NEW MEXICO AND ARE LOOKING FOR JOINT VENTURES IN INDUSTRY, COMMERCE AND TOURISM. WE CONSIDER INVESTING AND TRADING BETWEEN NEW MEXICO BUSINESS PEOPLE WITH OUR BUSINESS PEOPLE IS A GREAT ADVANTAGE NOT ONLY FOR THE STATE OF NEW MEXICO BUT FOR THE UNITED STATES IN GENERAL, SINCE EACH DOLLAR INVESTED IN JUAREZ OR MEXICO IS A DOLLAR THAT WILL RETURN TO THE STATES IN A VERY SHORT TIME. WE HAVE AN INCREASING EQUITITY. THIS AND SEVERAL OTHER TRENDS MAKE US BELIEVE IT IS VERY IMPORTANT TO TRADE AND INVEST BETWEEN OUR TWO CHAMBERS' MEMBERS FOR BUSINESS GROWTH IN NEW MEXICO AND CIUDAD JUAREZ. I ALSO WANT TO ADD THIS: ALL WE HAVE TO DO IS TO RATIFY OUR INTERESTS IN TRADING AND DOING BUSINESS WITHIN THE STATE OF NEW MEXICO. THANK YOU.

Congressional Hearing
June 13, 1987
Testimony by: Joseph Antone
Member
Albuquerque Hispano Chamber of Commerce
International Trade Committee
One World Marketing
7200 Montgomery NE/Ste B2-190
Albuquerque, NM
883-9711

I WOULD LIKE TO SUGGEST THAT THE VACANT POSITION IN THE DEPARTMENT OF COMMERCE BE FILLED SINCE THE DEPARTMENT OF COMMERCE HAS A LOT OF FREE LITERATURE WHICH WOULD BE OF GREAT ASSISTANCE TO THE SMALL AND MEDIUM SIZE BUSINESSPERSON. YOUR CONSIDERATION IN THIS MATTER WOULD BE GREATLY APPRECIATED. THANK YOU.

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